

OFFICIAL STATEMENT AND NOTICE OF SALE DATED JUNE 12, 2003

Rating:
Moody's Investors Service: Aaa

New Issue

In the opinion of Bond Counsel, the Bonds, including the interest thereon, are exempt from taxation imposed by existing Massachusetts law, although the Bonds or such interest are included in the measure of estate and inheritance taxes and of applicable corporation excise and franchise taxes, and under existing law the interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax. However, such interest may be included in the measure of certain taxes imposed upon corporations. The Bonds WILL NOT be "Qualified Tax-Exempt Obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. (See "Tax Exemption" and Appendix B herein.)

TOWN OF ANDOVER, MASSACHUSETTS \$14,935,000 GENERAL OBLIGATION REFUNDING BONDS

DATED
June 15, 2003

DUE
November 1
(as shown below)

The Bonds are issuable only as fully registered Bonds without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interests in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowner or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. (See "Book-Entry Only System" herein).

Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, or its successor as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

Principal of the Bonds will be payable November 1 of the years in which the Bonds mature. Interest on the Bonds will be payable on November 1, 2003, and semiannually thereafter on each November 1 and May 1 to the Bondowners of record.

In the opinion of Bond Counsel, the Bonds are valid general obligations of the Town of Andover, Massachusetts and the principal of and interest on the Bonds are payable from ad valorem taxes which may be levied upon all taxable property in the Town, subject to the limitations imposed by Chapter 59, Section 21C of the General Laws, except for approximately \$13,470,000 Bonds which the Town has voted to exempt from those limits.

The Bonds are not subject to redemption prior to their stated dates of maturity.

MATURITIES, AMOUNTS, RATES, PRICES AND/OR YIELDS

Due November 1	Principal Amount	Interest Rate	Price or Yield	CUSIP 034285	Due November 1	Principal Amount	Interest Rate	Price or Yield	CUSIP 034285
2003	\$295,000	2.00	% 1.00 %	B39	2010	\$1,550,000	3.50	% 2.35 %	C20
2004	260,000	2.00	1.00	B47	2011	1,510,000	2.50	2.55	C38
2005	755,000	2.00	1.00	B54	2012	1,020,000	2.70	2.75	C46
2006	1,730,000	2.00	1.20	B62	2013	995,000	2.80	2.85	C53
2007	1,685,000	2.00	1.50	B70	2014	970,000	3.00	3.00	C61
2008	1,635,000	2.00	1.80	B88	2015	945,000	3.20	3.15	C79
2009	1,585,000	2.00	2.10	B96					

(plus accrued interest if any)

The Bonds are offered subject to the final approving opinion of Ropes & Gray LLP, Boston, Massachusetts, Bond Counsel, as aforesaid, and to certain other conditions referred to herein. First Southwest Company, Boston, Massachusetts, has acted as Financial Advisor to the Town of Andover, Massachusetts with respect to the Bonds. Bonds in definitive form will be delivered at DTC, or its custodial agent, on or about June 20, 2003.

CITIGROUP GLOBAL MARKETS INC.

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The information and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Preliminary Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no material change in the affairs of the Town since the date of this Official Statement.

SUMMARY STATEMENT

The information set forth below is qualified in its entirety by the information and financial statements appearing elsewhere in the Official Statement.

Date of Sale:	June 12, 2003, 11:30 a.m. (Eastern Time).
Location of Sale	First Southwest Company, 54 Canal Street 3 rd Floor, Boston, MA
Issuer:	Town of Andover, Massachusetts.
Issue:	\$14,935,000 General Obligation Refunding Bonds. Book Entry Bonds, see "Book-Entry Only System" herein.
Preliminary Official Statement Dated:	June 3 2003.
Dated Date of Bonds:	June 15, 2003.
Principal Due:	Serially November 1, 2003 through November 1, 2015 as detailed herein.
Purpose and Authority:	Bond proceeds will finance various municipal projects as authorized by the Town Meeting under provisions of Chapter 44, Section 21A of the Massachusetts General Laws.
Redemption:	The Bonds are not subject to redemption prior to their stated dates of maturity.
Security:	The Bonds will be valid general obligations of the Town of Andover, Massachusetts, and the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the Town subject to the limit imposed by Chapter 59, Section 21C of the General Laws, <u>except for approximately \$13,470,000 Bonds which the Town has voted to exempt from those limits.</u>
Credit Rating:	Moody's Investor Service has assigned a rating of Aaa to the Bonds.
Bond Insurance:	The Town has not contracted for the issuance of any policy of municipal bond insurance or any other credit enhancement facility.
Basis of Award:	Lowest True Interest Cost (TIC), as of the dated date.
Tax Exemption:	Refer to "Tax Exemption" herein and Appendix B, "Proposed Form of Legal Opinion".
Continuing Disclosure:	Refer to "Continuing Disclosure" herein and Appendix C "Continuing Disclosure Certificate."
Bank Qualification:	The Bonds WILL NOT BE Qualified Tax-Exempt Obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.
Paying Agent:	U.S. Bank National Association, Boston, Massachusetts.
Escrow Agent:	U.S. Bank National Association, Boston, Massachusetts.
Verification Agent:	Grant Thornton LLP.
Legal Opinion:	Ropes & Gray LLP, Boston, Massachusetts.
Financial Advisor:	First Southwest Company, Boston, Massachusetts.
Delivery and Payment:	It is expected that delivery of the Bonds in book-entry form will be made to The Depository Trust Company on or about June 20, 2003 against payment in Federal Funds.
Additional Information:	Questions concerning the Official Statement should be addressed to: Mr. David J. Reilly, Treasurer, Town of Andover, MA. Tel: (978) 623-8250 or Allan Tosti, Senior Vice President, First Southwest Company, Boston, MA. Tel: (617) 619-4407.

NOTICE OF SALE

TOWN OF ANDOVER, MASSACHUSETTS \$14,935,000 GENERAL OBLIGATION REFUNDING BONDS

The Town of Andover, Massachusetts (the "Town") will receive sealed and electronic (as described herein) proposals until 11:30 A.M., Eastern Time, Thursday, June 12, 2003, for the purchase of the following described general obligation refunding bonds of the Town (the "Bonds"):

\$14,935,000 General Obligation Refunding Bonds payable as follows:

<u>Due</u> <u>November 1</u>	<u>Principal</u> <u>Amount</u>	<u>Due</u> <u>November 1</u>	<u>Principal</u> <u>Amount</u>
2003	\$295,000	2010	\$ 1,550,000
2004	260,000	2011	1,510,000
2005	755,000	2012	1,020,000
2006	1,730,000	2013	995,000
2007	1,685,000	2014	970,000
2008	1,635,000	2015	945,000
2009	1,585,000		

The Bonds will be dated June 15, 2003. Principal of the Bonds will be payable on November 1 of the years in which the Bonds mature. Interest will be payable on November 1, 2003 and semi-annually thereafter on November 1 and May 1.

The Bonds will be issued by means of a book-entry system with no physical distribution of Bond certificates made to the public. One Bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York ("DTC"), and immobilized in its custody. Ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, will be evidenced by a book-entry system with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The winning bidder, as a condition to delivery of the Bonds, shall be required to deposit the Bonds with DTC, registered in the name of Cede & Co. Interest and principal on the Bonds will be payable to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC. Transfer of principal and interest payments to beneficial owners will be the responsibility of such participants and other nominees of beneficial owners. The Town will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

The original Bonds to be immobilized at DTC will be prepared under the supervision of First Southwest Company, Boston, Massachusetts, and their legality approved by Ropes & Gray LLP, Boston, Massachusetts, whose opinion will be furnished to the purchaser without charge. All legal papers will be filed with First Southwest Company, where they may be examined.

The Bonds are not subject to redemption prior to their stated dates of maturity.

Bidders shall state the rate or rates of interest per annum which the Bonds are to bear in a multiple of 1/20 or 1/8 of one percent, but shall not state (a) more than one interest rate for any Bonds having a like maturity or (b) any interest rate which exceeds the interest rate stated for any other Bonds by more than 3 percent. No bid of less than par and accrued interest to date of delivery will be considered.

As between proposals which comply with this Notice, the award will be to the bidder offering to purchase all of the Bonds at the lowest net effective interest cost to the Town. Such interest rate shall be determined on a true interest cost (TIC) basis, which shall mean that rate which, as of June 15, 2003, discounts semi-annually all future payments of principal (as set forth on the front page of the Preliminary Official Statement, before any adjustment.) and interest on the Bonds to the price bid, not including interest accrued to the date of delivery, which accrued interest shall be paid by the successful bidder. In the event there is more than one proposal specifying the lowest such rate, the Bonds will be awarded to the bidder whose proposal is selected by the Town Treasurer by lot from among all such proposals.

ADJUSTMENT OF PRINCIPAL AMOUNT OF THE BONDS

Within the limits set forth herein, the Town reserves the right to adjust the aggregate principal amount of the Bonds, and to adjust the principal amount of individual maturities of the Bonds, even if the aggregate principal amount of the Bonds is unchanged. It is the Town's objective to allocate the debt service savings to be realized as a result of the issuance of the refunding Bonds as equally as possible among the years in which the Bonds are to be amortized.

Immediately following the opening of bids, the Town, acting through its Financial Advisor, will contact the apparent successful bidder by telephone to obtain the initial reoffering prices of each maturity of the Bonds, the premium to be paid on account of bond insurance, if any, and other information relevant to the sale of the Bonds. The apparent successful bidder shall then immediately deliver to the Town written confirmation by facsimile transmission as to such reoffering prices and bond insurance premium, if any. Upon being supplied with such initial reoffering prices and bond insurance premium, if any, the Town will determine the amount of Bonds that it may issue under the Internal Revenue Code. The Town will also determine the need to otherwise reallocate the principal maturities of the Bonds. The Town expects to advise the successful bidder as soon as possible, but no later than 5:00 p.m. E.T, on the date of sale of the amount, if any, of any changes in either the aggregate principal amount (which changes will be allocated among the several maturities of the Bonds in a manner to be specified by the Town) or individual maturities (assuming no changes in the aggregate principal amount of the Bonds).

Any adjustment in either the aggregate principal amount or the individual maturities of the Bonds will be in an amount of \$5,000 or an integral multiple thereof and will be made only as necessary to effect the refunding in accordance with the Town's objectives. The amount of the total purchase price of the Bonds as bid by the apparent successful bidder will be adjusted proportionately to any adjustment made in the aggregate principal amount of the Bonds, but the interest rates specified by the apparent successful bidder are not subject to change. Adjustments in the principal amount of the Bonds will be limited to \$250,000 in aggregate and ten percent in any maturity.

The apparent successful bidder may not withdraw its bid as a result of any changes made within the above-specified limits.

Bids must be submitted either:

- (a) In a sealed envelope marked "Proposal for Bonds" and addressed to Mr. David J. Reilly, Treasurer, Town of Andover, Massachusetts, c/o First Southwest Company, 54 Canal Street, Boston, Massachusetts 02114. Signed blank bid forms may be faxed to (617) 619-4411 prior to submitting bids, and actual bids may be telephoned to First Southwest Company, telephone (617) 619-4400, at least one-half hour prior to the 11:30 A.M. sale and after receipt of the faxed bid form by First Southwest Company.
- (b) Electronically via PARITY in accordance with this Notice of Sale. To the extent any instructions or directions set forth in PARITY conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about PARITY, potential bidders may contact the financial advisor to the Town or Dalcomp at 40 West 23rd Street, 5th Floor, New York, New York 10010, telephone (212) 404-8102.

First Southwest Company will act as agent for the bidder, but neither the Town nor First Southwest Company shall be responsible for any errors in connection with bids submitted in this manner.

The right is reserved to reject any or all bids and to reject any bid not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity with respect to any proposal.

The Town of Andover has not contracted for the issuance of any policy of municipal bond insurance for the Bonds. If the Bonds qualify for issuance of any such policy or commitment therefor, any purchase of such insurance or commitment shall be at the sole option and expense of the bidder. Proposals shall not be conditioned upon the issuance of any such policy or commitment. Any failure of the Bonds to be so insured or of any such policy or commitment to be issued shall not in any way relieve the purchaser of his/her contractual obligations arising from the acceptance of his/her proposal for the purchase of the Bonds. Should the bidder purchase municipal bond insurance, all expenses associated with such policy or commitment will be borne by the bidder, except for the fee paid to Moody's Investors Service for a rating on the Bonds. Any such fee paid to Moody's Investors Service would be borne by the Town.

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds, that contemporaneously with or before accepting the Bonds and paying therefor, such bidder shall be furnished, without cost, with (a) the approving opinion of the firm of Ropes & Gray LLP, Boston, Massachusetts, substantially in the form of Appendix B to the Preliminary Official Statement included herein, (See "TAX EXEMPTION" and "APPENDIX B-Proposed Form of Legal Opinion" in the Preliminary Official Statement), (b) a certificate in form satisfactory to said firm dated as of the date of delivery of the Bonds and receipt of payment therefor to the effect that there is no litigation pending or, to the knowledge of the signers thereof, threatened affecting the validity of the Bonds or the power of the Town to levy and collect taxes to pay them, and (c) a certificate of the Town Treasurer to the effect that, to the best of his knowledge and belief, as of the date of sale the Preliminary Official Statement, and as of the date of delivery of the Bonds the Final Official Statement referred to below does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

The Bonds will NOT be "qualified tax-exempt obligations" for the purpose of Section 265(b)(3) of the Code.

In order to assist bidders in complying with Rule 15c2-12 (b)(5) promulgated by the Securities and Exchange Commission, the Town will undertake to provide annual reports and notices of certain material events. A description of this undertaking is set forth in the Preliminary Official Statement.

It is anticipated that CUSIP identification numbers will be printed on the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the Town, provided, however, that the Town assumes no responsibility for any CUSIP Service Bureau or other charge that may be imposed for the assignment of such numbers.

Additional information concerning the Town of Andover and the Bonds is contained in the Preliminary Official Statement dated June 3, 2003, to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Notice of Sale. Said Preliminary Official Statement is deemed final by the Town except for the omission of the reoffering price(s), interest rate(s), delivery date, the identity of the underwriter(s), and any other pertinent terms of the Bonds depending on such matters, but is subject to change without notice to completion or amendment in a Final Official Statement. Copies of the Preliminary Official Statement may be obtained from the First Southwest Company, 54 Canal Street, Suite 320, Boston, Massachusetts 02114 (Telephone: 617-619-4400). Within seven (7) business days following the award of the Bonds in accordance herewith, 150 copies of the Final Official Statement will be available from the First Southwest Company to the successful bidder for use in reoffering the Bonds.

The Bonds in definitive form will be delivered to The Depository Trust Company on or about June 20, 2003 for settlement in Federal Reserve Funds.

/s/ Mr David J. Reilly
Town Treasurer

June 3, 2003

PRELIMINARY OFFICIAL STATEMENT
TOWN OF ANDOVER, MASSACHUSETTS
\$14,935,000 GENERAL OBLIGATION REFUNDING BONDS

This Preliminary Official Statement is provided for the purpose of presenting certain information relating to the Town of Andover, Massachusetts ("the Town") in connection with the sale of \$14,935,000 aggregate principal amount of its General Obligation Refunding Bonds, (the "Bonds"). The information contained herein has been furnished by the Town, except information attributed to another governmental agency or official as the source.

THE BONDS

Description of the Bonds

The Bonds will be dated June 15, 2003 and will mature on November 1 in each of the years 2003 to 2015 inclusive, and in the principal amounts as set forth on the cover page of this Preliminary Official Statement.

The Bonds are issuable only as fully registered Bonds without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interests in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. (See "Book-Entry Only System" herein.)

Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts or its successor, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

The Bonds are not subject to redemption prior to their stated maturity dates.

Record Date

The record date for each payment of interest is the **fifteenth** of the month preceding the interest payment date, provided that, with respect to overdue interest, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the Bondowners at least ten (10) days before the special record date.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued in fully registered form and will be-registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Bonds Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other Bonds transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of bond and note certificates. Direct Participants include both

U.S. and non-U.S. Bonds brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, EMCC, also subsidiaries of DTCC), as well as the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of securities deposited with it; DTC’s records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by the lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to securities held by it unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of the securities or its paying agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts such securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the securities held by DTC will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the issuer of the securities or its paying agent, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility of such Participant and not of DTC, nor its nominee, the issuer of the securities or its paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer of the securities or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds any time by giving reasonable notice to the Town or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The Town may decide to discontinue use of the system of book-entry system transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered.

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

Authorization of the Bonds and Use of Proceeds

\$14,935,000 The Bonds are authorized pursuant to Chapter 44, Section 21A of the Massachusetts General Laws, as amended, and by a vote of the Board of Selectmen passed for the purpose of the advance refunding of \$3,500,000 bonds (which represents the outstanding bonds maturing November 1, 2005 through November 1, 2011) originally dated November 1, 1994 which are subject to redemption on November 1, 2004; and \$10,000,000 bonds (which represents the outstanding bonds maturing November 15, 2006 through November 15, 2015) originally dated November 15, 1995 which are subject to redemption on November 15, 2005. The 1994 Bonds, together with the 1995 bonds are the "Refunded Bonds".

Plan of Refunding

Upon delivery of the Bonds, the Town will enter into a Refunding Escrow Agreement (the "Refunding Escrow Agreement") with U.S. Bank National Association, as Escrow Agent, to provide for the advance refunding of the Refunded Bonds. Upon receipt of the portion of the proceeds of the Bonds necessary to refund the Refunded Bonds, the Escrow Agent will deposit in the Refunding Escrow Fund established under the Refunding Escrow Agreement an amount which will be invested in direct obligations of the United States of America or obligations unconditionally guaranteed by the United States of America ("Government Obligations") maturing in amounts and bearing interest at rates sufficient without reinvestment to pay when due, interest on, and upon redemption, the outstanding principal of and redemption premium on the Refunded Bonds. The Refunding Escrow Fund, including the interest earnings on the Government Obligations, is pledged for the benefit of the holders of the Refunded Bonds.

Verification Agent

The accuracy of the mathematical computations of (i) the adequacy of the maturing principal of and interest earned on the escrow securities together with other available funds held in the escrow account, to provide for the payment of the Refunded Bonds; and (ii) the "yield" on the escrow securities and on the Bonds, prepared by the Underwriter, will be verified by Grant Thornton LLP, a firm of independent certified public accountants.

These computations will be based upon information and assumptions supplied by the Underwriter on behalf of the Town. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the Underwriter and has not evaluated or examined the assumptions or information used in the computations.

Sources and Uses of Funds

The following is a summary of the sources and uses of funds for the current issue of Bonds:

Sources:

Par Amount of Bonds	\$ 14,935,000.00
Reoffering Premium	220,554.00
Accrued Interest	5,078.33
Total Sources	<u>\$ 15,160,632.33</u>

Uses:

Total Underwriter's Discount	\$ 71,389.30
Deposit to Refunding Escrow Fund	15,021,995.22
Costs of Issuance Paid by the Town	59,325.00
Rounding Amount	2,844.48
Accrued Interest	5,078.33
Total Uses	<u>\$ 15,160,632.33</u>

Tax Exemption

In the opinion of Ropes & Gray LLP, Bond Counsel, the Bonds, including the interest thereon, are exempt from taxation imposed by existing Massachusetts law, although the Bonds or such interest are included in the measure of estate and inheritance taxes and of applicable corporation excise and franchise taxes and under existing law, except as described below, interest on the Bonds is not included in gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Code, but such interest is taken into account in determining adjusted current earnings for the purposes of computing the alternative minimum tax imposed upon certain corporations. See below and Appendix B - "Proposed Form of Legal Opinion".

The Code imposes certain requirements and restrictions on the use and investment of proceeds of state and local governmental obligations, including the Bonds, and a requirement for payment to the federal government (called a "rebate") of certain proceeds derived from the investment thereof. Failure to comply with the Code's requirements subsequent to the issuance of the Bonds could cause interest on the Bonds to become subject to federal income taxation, retroactive to the date of their issuance. On or before delivery of the Bonds to the original purchaser, the Town will provide covenants or certificates evidencing that it will take all lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Bonds from gross income for federal income tax purposes. Bond Counsel has expressed no opinion as to other federal tax consequences resulting from holding the Bonds.

The Code provides certain exceptions to the requirement that the issuer of tax exempt obligations rebate to the federal government certain income derived from investment of the proceeds of such obligations. One such exception applies when the gross proceeds of governmental purpose obligations are expended within certain specified time periods from the date of issuance of the obligations. The Town will certify that it expects to qualify for this exception so that sums derived from the investment and reinvestment of proceeds of the Bonds would be exempt from the rebate requirements of the Code.

Potential purchasers should be aware, however, of other collateral consequences that may result under the federal tax law for certain holders of the Bonds. Interest on the Bonds is included in the measure of the foreign branch profits tax imposed upon corporations and may be included in passive investment income subject to federal income taxation under provisions of the Code applicable to certain S corporations. The Code further provides that interest on the Bonds may be includable in the modified adjusted gross income of certain recipients of Social Security and Railroad Retirement benefits for the purpose of determining whether a portion of such benefits shall be included in the taxable income of such recipients, and is treated as "disqualified income" for purposes of determining whether an individual is eligible for the earned income credit. In addition, certain otherwise deductible underwriting losses of property and casualty insurance companies will be reduced by a portion of the interest on the Bonds that is received by such companies.

The Bonds WILL NOT BE "Qualified Tax-Exempt Obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Continuing Disclosure

Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, as amended, provides that underwriters may not purchase or sell municipal securities unless the issuer of the municipal securities undertakes to provide continuing disclosure with respect to those securities, subject to certain exemptions not applicable to the Bonds. The Town will covenant, at the time of delivery of the Bonds, to provide continuing disclosure consistent with the terms of the Rule, as provided in a Continuing Disclosure Certificate to be dated as of the date of the Bonds and incorporated by reference in the Bonds. The proposed form of this certificate is provided in Appendix C.

Opinion of Bond Counsel

The unqualified approving opinion as to the validity of the Bonds will be rendered by Ropes & Gray LLP, of Boston, Massachusetts, Bond Counsel. The opinion will be dated the date of the original delivery of the Bonds and will speak only as of such date. A copy of the legal opinion of the firm of Ropes & Gray LLP, of Boston, Massachusetts, will be printed on the Bonds. The proposed form of legal opinion is set forth in Appendix B hereto.

Other than as to matters expressly set forth herein as the opinion of Bond Counsel, Bond Counsel are not passing upon and do not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and make no representation that they have independently verified the same.

Rating

Application has been made to Moody's Investors Service for a rating on the Bonds. Such rating, if obtained, will be printed on the cover of the Final Official Statement. It will reflect only the views of the rating agency and will be subject to revision or withdrawal, which could affect the market price of the Bonds. If the Bonds are insured at the expense of the successfully bidder, the rating or ratings will be printed on the cover and described in Appendix D of the Final Official Statement.

Financial Advisory Services of First Southwest Company

First Southwest Company, Boston, Massachusetts, serves as financial advisor to the Town. The Town has consented to the participation by the firm in the public bidding on the Bonds if it so desires.

Source of Payment and Security

The Bonds will be general obligations of the Town and constitute a pledge of its full faith and credit. The Bonds will be payable as to both principal and interest from ad valorem taxes that may be levied upon all the property within the territorial limits of the Town and taxable by it, subject to the limitation imposed by Chapter 59, Section 21C of the General Laws, except for approximately \$13,470,000 Bonds which the Town has voted to exempt from those limits. (See "PROPERTY TAXATION - Property Tax Limitation".) Payment is not limited to a particular fund or revenue source.

Except for "qualified bonds" as described under "INDEBTEDNESS--Types of Obligations--Serial Bonds and Notes", no provision is made by the Massachusetts statutes for priorities among general obligations, although the use of certain moneys may be restricted. A city or town may vote to exempt from the statutory limit (See "PROPERTY TAXATION--Property Tax Limitation") the amounts required for payment of debt service on all bonds and notes outstanding as of November 4, 1980 (the date of passage of Proposition 2 1/2) and/or specific bonds or notes issued or to be issued since that date. (See "Use of State Distributions to Pay Debt Service" and "PROPERTY TAXATION--Property Tax Limitation".)

Massachusetts General Laws, Chapter 59, Section 23, as amended, requires that the municipal assessors shall annually assess taxes to an amount not less than the aggregate of, among other sums, "all amounts appropriated, granted or lawfully expended since the last preceding annual assessment and not provided for therein", all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for, and "all amounts necessary to satisfy final judgments" against the Town, less certain estimated receipts and reimbursements (including state aid), sums voted to be raised by transfer from available funds, and liabilities for the payment of which the Town has lawfully voted to contract debt. Specific provision is also made for including payments of notes in anticipation of federal aid or certain state aid in the next tax levy if the aid or reimbursement is no longer forthcoming. However, the total amount of the tax levy is limited by statute. (See "PROPERTY TAXATION -- Property Tax Limitation".)

No provision is made for a lien on any portion of the tax levy to secure bonds or notes (or judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay final judgments rendered after the tax levy has been fixed, subject to the General Debt Limit. (See "INDEBTEDNESS-- Authorization Procedure and Limitations" herein.) With the approval of the State Director of Accounts, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

In the opinion of Bond Counsel, Massachusetts cities and towns are subject to suit on their general obligation bonds and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds from lawfully available funds or, if necessary, to order the city or town to take lawful action to obtain the required money, including the raising of it in the next annual levy, within the limits prescribed by law. (See "PROPERTY TAXATION -- Property Tax Limitation"). In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies.

Massachusetts statutes also provide that certain electric, water, sewer and parking meter receipts may be used only for electric, water, sewer and parking and related purposes respectively and, accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. Receipts from industrial users in connection with industrial revenue bond financings are also not available for general municipal purposes.

State grants and distributions may in some circumstances be unavailable to pay general obligation bonds of a city or town since the State Treasurer is empowered to deduct the amount of any debt service paid on "qualified bonds" (see "INDEBTEDNESS--Types of Obligations--Serial Bonds and Notes") or on other general obligation bonds or notes (see "Use of State Distributions to Pay Debt Service") and any other sums due and payable by the city or town to the Commonwealth, including any unpaid assessments for costs of any public transportation authority.

Enforcement of a claim for payment of principal of or interest on general obligation bonds or notes would also be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied.

Use of State Distributions to Pay Debt Service

Section 19A of Chapter 44 of the General Laws provides in part that, if a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it may notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount distributable by the Commonwealth to the city or town during the remainder of the fiscal year after first deducting any sums owed by the city or town to the Commonwealth. If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing provisions are not a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. It should also be noted that adoption of the annual appropriation act is often delayed beyond the beginning of the fiscal year and that estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

TOWN OF ANDOVER, MASSACHUSETTS

General

The Town of Andover is located in Essex County approximately 22 miles north of Boston on the Merrimack River. Andover has a population of approximately 31,247 (2000 federal census) and occupies a land area of 32 square miles. The Town is governed by an open town meeting and administered by a Town Manager and a five-member Board of Selectmen.

The following table sets forth the principal executive officials of the Town.

Principal Town Officials

<u>Town Title</u>	<u>Name</u>	<u>Selection</u>	<u>Term Expires</u>
Selectman, Chairman	John P. Hess	Elected	2004
Selectman, Vice Chairman	Brian P. Major	Elected	2006
Selectman, Secretary	Mary K. Lyman	Elected	2005
Selectman	Ted E. Teichert	Elected	2006
Selectman	Raymond E. Hender	Elected	2004
Town Manager	Reginald S. Stapczynski	Appointed	2005
Director of Finance	Anthony J. Torrisi	Appointed	Indefinite
Treasurer/Collector	David J. Reilly	Appointed	Indefinite
Town Accountant	Rodney P. Smith	Appointed	2005
Town Clerk	Randall L. Hanson	Appointed	Indefinite

Municipal Services

The Town provides general governmental services for the territory within its boundaries, including police and fire protection, disposal of solid waste, water and sewer services, schools for grades Kindergarten through 12, street maintenance, parks and recreational facilities, a library and a land conservation program. The Andover Housing Authority provides housing for the elderly and low-income families.

The Greater Lawrence Regional Vocational Technical High School District provides vocational and technical education for students in grades 9 through 12.

The Town operates its own water supply, purification and distribution system providing water services to essentially all residential, industrial and commercial users in the Town. The Town provides the Towns of Tewksbury and North Reading with water on an emergency basis.

Wastewater treatment services are provided for many of the Town's residential users and essentially all of the Town's industrial and commercial users via connections to the Greater Lawrence Sanitary District. The Town's Public Works Department is responsible for the operation and maintenance of the Town's wastewater pumping stations and the entire system of sanitary sewers.

Education

The Town's public school facilities include five elementary schools and one early childhood center, three middle schools and one senior high school. The table below, provided by the Andover School Department, sets forth the trend in public school enrollments for the last four years and the current year.

PUBLIC SCHOOL ENROLLMENTS - OCTOBER 1

	Actual					Projected	
	1998	1999	2000	2001	2002	2003	2004
Elementary	2,855	2,828	2,802	2,768	2,793	2,792	2,781
Middle School	1,393	1,436	1,472	1,526	1,525	1,488	1,474
Senior High	1,486	1,568	1,639	1,637	1,691	1,752	1,797
Total	<u>5,734</u>	<u>5,832</u>	<u>5,913</u>	<u>5,931</u>	<u>6,009</u>	<u>6,032</u>	<u>6,052</u>

In the mid 1990's, the Town borrowed approximately \$42,000,000 for additions to and reconstruction of Andover High School, the South Elementary School and the Sanborn Elementary School. The debt service was excluded from the limits of Proposition 2 ½ and the Town is receiving a reimbursement from the State School Building Assistance Program for 60% of construction and interest expense. These projects upgraded facilities and increased available capacity. With the completion of the new elementary and middle schools facilities, the school system will have an additional 1,014 seats, when added to the previous capacity of 5,488, totals 6,502, which the Town believes will provide sufficient capacity for the foreseeable future. The authorizations were excluded from the limits of Proposition 2 ½ and are eligible for a reimbursement from the State School Building Assistance Program of 60% of construction and interest expense.

The Town is also a member of the Greater Lawrence Regional Vocational Technical High School District. Other members include Lawrence, North Andover and Methuen. Andover enrollment averages less than 2% of District total enrollment. The District is in the process of a substantial reconstruction of its facilities. (See Overlapping Debt).

Industry and Commerce

The Town of Andover is primarily residential in character but has a substantial amount of industry. Manufacturing is the leading economic pursuit. The table below sets forth the major categories of income and employment in the Town during the following calendar years.

Employment and Payroll

Industry	Calendar				
	1997	1998	1999	2000	2001
Government	3,450	3,698	3,540	3,468	3,729
Agriculture	112	97	96	109	117
Construction	728	688	622	610	683
Manufacturing	10,893	11,069	11,154	11,348	11,162
Trans., Comm. and Pub. Util.	1,234	1,422	1,562	1,656	1,672
Wholesale & Retail Trade	3,887	3,994	3,848	3,523	3,499
Finance, Insurance and Real Estate	1,193	1,142	1,719	3,494	2,968
Services	8,108	8,829	9,210	10,050	10,710
Total Employment	<u>29,605</u>	<u>30,939</u>	<u>31,751</u>	<u>34,258</u>	<u>34,540</u>
Number of Establishments	940	957	1,035	1,086	1,075
Average Annual Wage	\$ 48,404	\$ 46,275	\$ 54,911	\$ 65,484	\$ 56,543
Total Annual Payroll	<u>\$ 1,433,004,792</u>	<u>\$ 1,431,698,980</u>	<u>\$ 1,743,493,858</u>	<u>\$ 2,243,341,491</u>	<u>\$ 1,953,006,364</u>

SOURCE: Massachusetts Department of Employment and Training. Data based upon place of employment, not place of residence.

Largest Employers

The following table lists the Town's largest employers, exclusive of the Town itself, as of June, 2003.

Name	Product/Function	Approximate No. of Employees
Raytheon Co. & Endrock Associates	Missile Systems	3,300
Internal Revenue Service	Regional Service Center	2,340 (1)
Phillips Electronics	Medical Electronics	2,200
Wyeth BioPharma	Biotechnology Research & Mfg	1,900
Putnam Investments	Mutual Funds	1,800
Vicor	Computer Equipment	1,650
Phillips Academy	Private School	1,186 (2)
Verizon	Communications	905
Compaq	Computer Equipment	720
Gillette Company	Personal Care Products	580
Smith-Nephew	Home Supplies	550
Comverse Network Systems	Technology Research & Mfg.	400
Dynamics Research Corporation	Mfg. Ind. Measurement Systems	365
Supervalu, Inc.	Wholesale Food Distributor	350
Andover Controls	Mfg. Instruments	300
Salience	Technology Research & Mfg.	300
CGI	Technology Research & Mfg.	300
Brockway Smith	Millwork Wholesale Distributors	268
The Andover Companies	Insurance	250
MKS	Mfg. Instruments	200
Wyndham Hotels	Hotels/Conference and Food Svc.	180
Eisai Research Company	Biotechnology Research & Mfg	170
Navisite	Internet Service Provider	120
Polycom	Communications	120

SOURCE: Individual Employers Listed

(1) Includes seasonal employees.

(2) Includes part-time and temporary employees.

Economic Development

The development climate in Andover during the year 2002, although not as robust as in many previous years, did continue at a fairly steady pace. The River Road industrial district along I-93, which has the capacity for 7,000,000 square feet, currently provides jobs for more than 9,000 people in a built environment of approximately 6,000,000 square feet of space. The River Road area has the potential to accommodate more than 14,000 employees. Boston Properties completed construction of a new 120,858 square foot office building on Shattuck Road, and new tenants have moved in. A second 106,711 square foot building on the Boston Properties site has been approved, representing future development. In the 960,000 square foot multi-building Minuteman Park complex, construction has been completed on a new 113,371 square foot building and the medical instruments firm Smith+Nephew has moved in. The new owners of the New England Business Center complex have commenced construction of the second phase (52,638 square feet) of one of the existing buildings; and have another 134,316 square foot office building in the park. Navistar is one of the occupants of a new 160,860 square foot office building at 800 Federal Street. A new 70,000 square foot building on Riverside Drive is programmed to be built and occupied by Physical Sciences, Inc. A new 100,000 square foot building has been approved on Campanelli Drive for New Boston Fund, Inc. Applied Microcircuits Corporation; Multilink; Tiburon; Telesales; and Speedtrack occupy a 200,000 square foot building in Minuteman Park.

The largest tenants in the River Road area continue to be Phillips Electronics (formerly Agilent Technologies), with more than 2,000 employees in over 900,000 square feet of space, followed by Putnam Investments, which occupies 350,000 square feet and has around 1,800 employees. Quantum Bridge Communications is occupying a 106,000 square foot building on Tech Drive, off Shattuck Road. Also located in the River Road industrial district are such firms as Verizon, Eisai Laboratories, the Massachusetts School of Law; the Vicor Company, Boston Technology; and MKS Instruments; and the Marriott Corporation.

Two of three new hotels in the River road area have been completed and are letting rooms. Those are a 120 room Residence Inn by Marriott, and a 134 room Staybridge Suites by Bass Hotels and Resorts. The third hotel, a 134 room Spring Hill Suites by Marriott is nearing completion.

All of the new development at the River Road/I-93 interchange is linked to a \$10,000,000 roadway, ramp, and bridge improvement project funded by the state and federal government. The roadway and ramp improvements have been completed, and a new six-lane bridge over I-93 has been completed.

The Dascomb Road/Lowell Street industrial area, also adjacent to I-93 is home to a large Raytheon Company facility with more than 1,000,000 square feet of space, along with Compaq Computers (447,500 square feet), the Internal Revenue Northeast Service Center, Smith-Nephew Endoscopy (111,000 square feet), the Brockway Smith Company (42,000 square feet), and Cambridge Isotopes. A new 174,665 square foot building is now occupied by California Products, a paint manufacturing company formerly based in Cambridge. The Dascomb Road district is already the home of the Vicor Company corporate headquarters; and an existing 64,000 square foot building on Frontage Road recently vacated by Vicor has been renovated and is now occupied by the Tensolite Company which manufactures high performance products used in the telecommunications and aerospace industries. Tensolite has relocated around 130 employees to the new facility. Vicor has moved the majority of its manufacturing operation to its recently expanded Federal Street facility in the River Road area described earlier.

In the Lowell Junction industrial district along I-93, Wyeth Biopharma (formerly Genetics Institute) has nearly completed its new 333,128 square foot biopharmaceutical manufacturing facility. This building alone represents a \$225,000,000 investment by Genetics, and will bring the total space on the site to over 800,000 square feet. Genetics' master plan calls for more than 1,000,000 square feet. Genetics has also recently purchased two existing buildings totaling 119,392 square feet of space adjacent to their main facility, and has received approval to create 48,545 square feet of new space inside those buildings. A new 43,000 square foot facility has been completed Detroit Diesel, and a new 37,000 square foot office warehouse building is currently before the planning board. The Gillette Company currently occupies 592,000 square feet of space in the district. With the construction of a new industrial connector road anticipated within the next two years an additional 100 acres of land will be accessible for industrial expansion.

Brickstone Square, which is a large renovated 1,000,000 square foot former mill complex in the Shawsheen area adjacent to I-495 continues to thrive, and is currently occupied by such firms as 3COM, Lucent Technologies, Mitsubishi, Tucker Anthony, Wellpoint/Unicare, FTP Software, John Hancock Life Insurance, Pixel Magic, Xenejenex, the Northeast Document Conservation Center, and several others. The firm of Cambridge Soundworks has recently taken the space formerly occupied by CMGI.

Commercial and retail activities in downtown Andover remained stable in 2000. The Wild Oats market operating in a 45,000 square foot building continues to be a success, and Shawsheen Square's 14,000 square foot Courtyard Retail Center is fully occupied. The Planning Board has approved a mixed-use development at the intersection of Stevens Street and North Main Street. This project includes a new 64,000 square foot medical services building, and a residential structure containing 72 units.

Unemployment

According to the Massachusetts Division of Employment and Training, in March 2003, the Town had a total labor force of 17,502, of which 16,600 were employed and 902 or 5.2% were unemployed, as compared with 6.1% for the Commonwealth (unadjusted).

The following table sets forth the Town's average labor force and unemployment rates, as well as the unemployment rates for the Commonwealth and the United States, for the last five calendar years.

UNEMPLOYMENT RATES

Year	Town of Andover		Massachusetts Unemployment	United States Unemployment Rate
	Labor Force	Unemployment Rate		
2002	17,888	4.9 %	5.3 %	5.8 %
2001	17,069	3.2	3.7	4.8
2000	16,973	2.0	2.6	4.0
1999	16,969	2.5	3.2	4.2
1998	16,646	2.4	3.3	4.5

SOURCE: U.S. Bureau of Labor Statistics and Massachusetts Department of Revenue, Division of Local Services. Monthly data are unadjusted.

Building Permits

The following table sets forth the number of building permits issued and the estimated dollar value of new construction and alterations for calendar years 1998 through 2002. The estimated dollar values are builders' estimates, which are generally considered to be conservative. The table reflects permits filed and estimated valuations for both private construction and Town projects.

BUILDING PERMITS (000)

Calendar Year	New Construction				Other(1)		Totals	
	Residential		Non-Residential					
	No.	Value	No.	Value	No.	Value	No.	Value
2002	38	\$ 13,791	4	\$ 22,558	1,074	\$ 72,523	1,116	\$ 108,872
2001	33	9,206	7	18,688	1,038	103,371	1,078	131,265
2000	63	28,381	26	31,501	821	93,633 (2)	910	153,515
1999	63	14,151	13	20,058	1,072	63,450	1,148	97,659
1998	69	13,869	1	600	1,071	45,529	1,141	59,998

(1) Additions and alterations to all types of buildings (including residential), as well as permits for pools, demolitions, signs, and others.

(2) Includes new school building permit of \$25,048,000.

Transportation and Utilities

The principal highways serving the Town include Interstate Route 495, which connects to Interstate 95 and Interstate Route 93. Transportation is available to Andover residents aged sixty and older or handicapped via the Merrimac Valley Regional Transit Authority (MVRTA) to the neighboring communities of Lawrence, North Andover and Methuen. Established trucking firms provide competitive service locally and to long distance points. Commuter rail service to Boston is provided by the Massachusetts Bay Transit Authority (MBTA). Logan International Airport in Boston is about 25 miles south of Andover and Lawrence Municipal Airport in North Andover has two paved runways (5,000 and 3,100 feet long, respectively).

Gas and electric services are provided by established private utilities.

Population, Income and Wealth Levels

The following table shows the median age, median family income and per capita income according to the Federal Census.

	<u>Andover</u>	<u>Massachusetts</u>	<u>United States</u>
Median Age:			
2000	39.5	36.5	35.3
1990	36.4	33.6	32.9
Median Family Income:			
2000	\$104,820	\$61,664	\$50,046
1990	70,757	44,367	35,225
Per Capita Income:			
2000	\$41,133	\$25,952	\$21,587
1990	26,327	17,224	14,420

SOURCE: U.S. Bureau of the Census.

POPULATION TRENDS

<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>	<u>1960</u>
31,247	29,151	26,370	23,695	17,134

PROPERTY TAXATION

Tax Levy Computation

The principal revenue source of the Town is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from available funds. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see "Property Tax Limitation" below. As to the inclusion of debt service and final judgments, see "THE BONDS--Source of Payment and Remedies", above. The estimated receipts for a fiscal year from other sources may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds, the use of which is otherwise provided for by law, the deduction for appropriations voted from available funds for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years. Although an allowance is made in the tax levy for abatements (see "Overlay" below) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see "Taxation to Meet Deficits" below).

The table below illustrates the manner in which the tax levy was determined for the following fiscal years.

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
Total Appropriations(1)	\$84,013,091	\$90,543,749	\$94,792,161	\$100,219,511	\$108,183,206
Additions:					
State and County Assessments	953,160	978,837	1,045,448	1,112,644	1,418,491
Overlay Reserve	916,444	915,104	1,000,000	980,883	958,499
Other Additions	322,873	210,867	211,613	1,025,468	65,101
Total Additions	<u>2,192,477</u>	<u>2,104,808</u>	<u>2,257,061</u>	<u>3,118,995</u>	<u>2,442,091</u>
Gross Amount to be Raised	<u>86,205,568</u>	<u>92,648,557</u>	<u>97,049,222</u>	<u>103,338,506</u>	<u>110,625,297</u>
Deductions:					
Local Estimated Receipts	15,463,910	17,044,938	18,279,649	18,775,757	19,630,714
State Aid:(2)					
Current Year	8,508,402	9,473,948	10,671,332	11,626,528	11,110,423
Prior Year's Overestimate	5,390	0	10,107	0	315
Available Funds:(3)					
Free Cash	2,128,435	4,151,008	2,810,319	2,855,912	2,623,476
Other	2,017,957	239,560	347,229	249,740	1,429,269
Total Deductions	<u>28,124,094</u>	<u>30,909,454</u>	<u>32,118,636</u>	<u>33,507,937</u>	<u>34,794,197</u>
Net Amount to be Raised (Tax Levy)	<u><u>\$58,081,474</u></u>	<u><u>\$61,739,103</u></u>	<u><u>\$64,930,586</u></u>	<u><u>\$69,830,569</u></u>	<u><u>\$75,831,100</u></u>

-
- (1) Includes annual appropriations from taxation voted subsequent to adoption of the annual budget but prior to setting the tax rate.
 - (2) Includes state aid as well as other payments from the Commonwealth. As a result of lower than anticipated state revenues in the current fiscal year, the state legislature recently authorized the Governor to make significant reductions in the amount of state aid originally appropriated for cities and towns for the current fiscal year. The Governor has determined that the amount of state aid originally appropriated to the Town will be reduced by \$173,399. See "TOWN FINANCES--Revenue--State Aid".
 - (3) Transfers from available funds, including "Free Cash" (see "Free Cash"), generally made as an offset to a particular appropriation item.

Assessed Valuations and Tax Levies

The Massachusetts Constitution authorizes the legislature to classify property for the purposes of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share to be borne by residential real property must be at least 50 per cent of its share of the total taxable valuation. The effective rate for open space must be at least 75 per cent of the effective rate for residential real property. The share of commercial, industrial and personal property must not exceed 175 per cent of their share of the total valuation. A city or town may also exempt up to 20 per cent of the valuation of residential real property. The legislation took effect for the 1981 fiscal year, but property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value.

Related statutes provide that certain forest land (which is to be valued at not exceeding \$10 per acre), agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 per cent of its fair cash value) are all to be taxed at the rate applicable to commercial property.

Classification came in part in response to a general recognition that, under the prior system of valuation, there were substantial discrepancies in fact between fair cash values and assessed valuations within municipalities and relative discrepancies as between municipalities. In a number of municipalities litigation concerning disproportionate valuations led to court-ordered revaluations and, in some instances, to delayed tax bills. Disproportionate valuation also led to substantial relief pursuant to petitions for abatement where there had been unlawful discrimination between categories of property.

The table below sets forth the trend in the Town's assessed valuations, tax rates, tax levies, and tax levies per capita for the following fiscal years.

ASSESSED VALUATIONS AND TAX RATES

Fiscal Year	Real Estate Valuation	Personal Property Valuation	Assessed Valuation	Tax Rate Per \$1,000 Valuation		Tax Levy	Tax Levy Per Capita(1)
				Residential	All Other		
2003	\$ 5,803,091,704	\$ 110,559,980	\$ 5,913,651,684	\$ 11.63	\$ 16.54	\$ 75,831,100	\$ 2,427
2002	4,402,528,421	93,565,960	4,496,094,381	14.13	19.57	69,830,569	2,235
2001	3,888,032,825	84,876,150	3,972,908,975	14.92	20.59	64,930,585	2,078
2000 (2)	3,793,624,332	73,976,860	3,867,601,192	14.65	20.11	61,739,102	1,976
1999	3,405,395,527	67,487,130	3,472,882,657	15.17	21.74	58,081,474	1,859

(1) Based on 2000 U.S. Bureau of the Census figure.

(2) Revaluations 2000 and 2003.

ASSESSED VALUATIONS BY CLASS

The table below shows the breakdown of the estimated real estate assessed valuation for the following fiscal years by class.

Property Type	2002		2003	
	Amount	% of Total	Amount	% of Total
Residential (1)	\$3,337,867,183	75.82 %	\$4,476,720,701	77.14 %
Commercial	515,652,738	11.71	641,178,403	11.05
Industrial	549,008,500	12.47	685,192,600	11.81
Total Real Estate	<u>\$ 4,402,528,421</u>	<u>100.00 %</u>	<u>\$ 5,803,091,704</u>	<u>100.00 %</u>

(1) Includes Open Space.

Largest Taxpayers

The following is a list of the ten projected largest taxpayers in the Town based upon taxes assessed for fiscal 2003. All of the taxpayers listed below are current in their tax payments.

<u>Name</u>	<u>Nature of Business</u>	<u>Total Assesed Valuation for Fiscal 2003</u>	<u>% of Total Valuation</u>
Genetics Institute	Industrial	\$116,547,200	1.97 %
Andover Mills Realty Ltd. Partnership	Commercial	110,472,300	1.87
Raytheon	IndustrialResd.	73,823,300	1.25
Phillips Electro No Amer Corp. (Agilent)	Industrial	62,718,500	1.06
BCIA New England Holdings LLC	Office/Industrial	53,593,300	0.91
Andover Park Realty Trust	Industrial	39,228,300	0.66
Lincoln Andover LLC (Putnam Investments)	Commercial	37,975,600	0.64
Gillette Company	Industrial	35,809,800	0.61
C.A. Investment Trust	Resd/Comm.	36,644,400	0.62
Massachusetts Electric Co.	Ind./Utility	2,333,800	0.04
Total		<u>\$569,146,500</u>	<u>13.98 %</u>

State Equalized Valuation and Estimated Full Value Tax Rate

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes a redetermination of the fair cash value of the taxable property in each municipality as of January 1 of even numbered years. This is known as the "equalized value". The following table sets forth the trend in equalized valuations of the Town of Andover.

<u>January 1,</u>	<u>State Equalized Valuation</u>	<u>% Change</u>
2002	\$5,589,664,700	30.95 %
2000	4,268,662,500	21.14
1998	3,523,811,700	14.71
1996	3,072,063,800	10.97
1994	2,768,496,400	(10.02)
1992	3,076,772,000	(10.47)

Overlay

The Town is authorized by law to increase each tax levy by an amount approved as reasonable by the Commissioner of Revenue for an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay reserve, the resultant "overlay deficit" is required to be added to the next tax levy. Any balance in the overlay account, in excess of the amount of the warrant remaining to be collected or abated, is transferred to a reserve fund to be used for extraordinary or unforeseen expenses. Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue.

The table below sets forth the amount of the overlay reserve for the last five fiscal years, and actual abatements and exemptions granted through June 30, 2002, against the respective fiscal year's levy.

OVERLAY RESERVE AND ABATEMENTS

Fiscal Year	Net Tax Levy(1)	Overlay Reserve		Abatements Granted Through June 30, 2002
		Dollar Amount	As a % of Net Levy	
2002	\$68,849,686	\$ 980,883	1.42 %	\$ 428,039
2001	63,930,586	1,000,000	1.56	355,569
2000	60,823,999	915,104	1.50	370,435
1999	57,165,314	916,444	1.60	281,891
1998	54,034,014	926,191	1.71	283,808

(1) Tax levy prior to addition of overlay reserve.

Tax Collections

Beginning in fiscal 1991, the Town instituted quarterly tax billings with tax bills payable August 1, November 1, February 1, and May 1 of each fiscal year. Interest accrues on delinquent taxes at the rate of 14 percent per annum. Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and subject to bankruptcy and insolvency laws. If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment. The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described below.

The table below compares the Town's net tax collections with its net (gross tax levy less overlay reserve for abatements) tax levies for the following fiscal years.

TAX COLLECTIONS

Fiscal Year	Gross Tax Levy	Overlay Reserve for Abatements	Net Tax Levy	Collections During Fiscal Year Payable(1)		Collections as of June 30, 2002(1)(2)	
				Dollar Amount	% of Net Levy	Dollar Amount	% of Net Levy
2002	\$ 69,830,570	\$ 980,883	\$ 68,849,686	\$ 68,828,973	99.97 %	\$ 68,828,973	99.97 %
2001	64,931,425	1,000,800	63,930,625	63,745,645	99.71	64,268,544	100.53
2000	61,739,103	915,104	60,823,999	60,479,007	99.43	61,114,669	100.48
1999	58,081,474	916,160	57,165,314	57,054,254	99.81	57,669,506	100.88
1998	54,960,205	926,191	54,034,014	53,727,265	99.43	54,507,187	100.88

(1) Actual dollar collections net of refunds. Does not include abatements proceeds of tax titles or tax possessions attributable to each levy or other non-cash credits.

(2) Collections for fiscal 2003 are comparable to prior years.

Tax Titles and Possessions

Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for non-payment of taxes thereon. In either case the property owner can redeem the property by paying the unpaid taxes, with interest (at a rate of 16% effective August 16, 1979) and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments) it can be foreclosed by petition to the land court.

Upon such foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of like any land held for municipal purposes. Uncollectible real property taxes are ordinarily not written off until they become municipal tax titles (either by purchase at the public sale or by taking), at which time the tax is written off in full by reserving the amount of tax and charging surplus.

The following table sets forth the amount of tax titles and possessions as of the end of each of the following fiscal years.

TAX TITLES

<u>Fiscal Year</u>	<u>Total Tax Titles and Possessions</u>
2002	\$ 696,532 (1)
2001	1,151,633
2000	1,231,217
1999	1,409,885
1998	1,656,300

-
- (1) Subsequent to June 30, 2002, the Town collected approximately \$550,000 in back taxes and \$450,000 in interest on a large commercial property.

Taxation to Meet Deficits

Overlay deficits, i.e., tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e., those resulting from non-property tax revenues being less than anticipated, are also required to be added to the next tax levy (at least to the extent not covered by surplus revenue). (Taxes are supposed to be levied by June 14, at which time any revenue deficit as of the beginning of the budget and tax year (July 1) is not finally determinable. However, taxes are generally in fact levied after July 1.) Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. (The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for emergencies, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, certain established salaries, e.g., civil service, must legally be paid for work actually performed, whether or not covered by appropriations.)

All account and overlay deficits in existence at the time tax rates have been set have been provided for as required by Massachusetts law during this period. See "PROPERTY TAXATION - Tax Levy Computation".

In the opinion of Bond Counsel, cities and towns are authorized to appropriate sums, and thus to levy taxes, subject to any overall limits on tax levies, to cover deficits arising from other causes, such as "free cash" deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that free cash deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence. See "TOWN FINANCES - Free Cash".

Property Tax Limitation

Chapter 59, Section 21C, known as "Proposition 2 1/2", states that, among other things, the property taxes that may be assessed in any city or town are generally limited to not more than 2 1/2% of the full and fair cash valuation of the real estate and personal property therein. The law (as amended to date) is subject to further amendment or repeal by the legislature.

The Primary Levy Limit

The law provides that no city or town may levy property taxes in any year in excess of 2 1/2% of the full and fair cash valuation of the taxable real and personal property therein, as that valuation is certified or determined by the State Commissioner of Revenue (the "Primary Limit"). The law includes a transition provision for cities and towns whose tax levies exceed the Primary Limit so as to limit any required reduction for any fiscal year to 15% of the total taxes levied in the preceding fiscal year until the city's or town's property taxes equal the Primary Limit.

The Maximum Levy Limit

In addition to the Primary Limit, the law imposes a limit upon the amount by which the annual tax levy may increase from year to year in any city or town in which the total property tax levy is at or below the Primary Limit. The property tax levy limit in any fiscal year may not increase more than 2 1/2% of the "Maximum Levy Limit" for the preceding fiscal year, as determined by the Commissioner of Revenue, plus a limited additional amount on account of property added to the tax rolls for the first time and property that has realized certain other increases in assessed valuation (other than as a result of a general revaluation of all property in the city or town, i.e., "new growth"). In no event may the total taxes which are subject to the limits be increased to an amount which would cause the total levy to exceed the Primary Limit of 2 1/2% of valuation.

The law provides for several actions affecting the Primary and Maximum Levy Limits that cities and towns may authorize by vote at a regular, special or state election:

- (1) Any city or town may, by majority vote, exempt altogether from the Primary and Maximum Levy Limits debt service on all bonds or notes issued prior to November 4, 1980 or debt service on any particular bonds or notes issued or to be issued after that date, commonly referred to as "debt exclusion".
- (2) Any city or town may by majority vote, exempt altogether from the Primary and Maximum Levy Limits specified amounts appropriated to be raised in the tax levy of a single fiscal year for certain specified capital outlay expenditures, commonly referred to as an override.
- (3) Any city or town whose tax levy is below the Primary Limit may, by majority vote, increase for any single fiscal year its allowable annual increase, but in no event may the tax levy as so increased exceed the Primary limit.
- (4) Any city or town which is required to reduce its tax levy because it exceeds the Primary Limit may, by majority vote, limit the reduction to one-half of that otherwise required or, by two-thirds vote, limit the reduction to a lesser amount.
- (5) Any city or town may, by majority vote, reduce the amount of taxes that may be levied in a fiscal year.

The law also reduced the motor vehicle excise tax rate from a maximum of \$66 per \$1,000 valuation to a maximum of \$25 per \$1,000 as of January 1, 1982 and provides limits on the total amount the Commonwealth, a county, district, public authority or other governmental entity (other than regional school, water and sewerage districts) may assess upon cities and towns for any fiscal year to 102 1/2% of the amount assessed upon cities and towns for the preceding fiscal year plus any increases in costs, charges or fees for services customarily provided locally or subscribed to at local option. Former statutory provisions for binding arbitration in connection with labor disputes involving police or fire department employee collective bargaining units and for fiscal autonomy of school committees were repealed, although school committees retain the power to allocate expenditures within the total amount appropriated for school purposes.

The Town of Andover has been in full compliance with Proposition 2 1/2 since its inception. Under the law as now written, the current and future levies may increase by up to 2 1/2% of the maximum levy limit for the previous fiscal year, plus by any amounts voted for override and debt exclusion, or "new" valuations or "real" valuation increases of 50% or more.

On May 17, 1994 the Town voted to exempt from the restrictions of Proposition 2 1/2 the debt service from \$38,500,000 bonds authorized for the construction and reconstruction of the high school and two elementary schools and \$2,000,000 for the installation of a technology system.

On May 23, 2000 the Town voted to exempt from the restrictions of Proposition 2½ the debt service from \$34,455,000 bonds authorized for the construction of a new middle school and a new elementary school and from \$12,900,000 bonds authorized for the construction and reconstruction of the Public Safety Complex.

The following table presents the Town's primary levy limits, its maximum levy limits, and its actual tax levies for the current and last four fiscal years.

TAX LEVIES AND TAX LEVY LIMITS

Fiscal Year	Local Assessed Valuation	Primary Levy Limit(1)	Maximum Levy Limit (2)	Actual Tax Levy	(Over)Under Primary Levy Limit	(Over)Under Maximum Levy Limit
2003	\$ 5,913,651,684	\$147,841,292	\$ 75,831,251	\$75,831,100	\$ 72,010,192	\$ 151
2002	4,496,094,381	112,402,360	71,123,231	69,830,570	42,571,790	1,292,661
2001	3,972,908,975	99,322,724	65,513,130	64,930,586	34,392,138	582,544
2000	3,867,601,192	96,690,030	62,075,279	61,739,102	34,950,928	336,177
1999	3,472,882,657	86,822,066	58,922,638	58,081,474	28,740,592	841,164

(1) Primary Levy Limit is shown as 2.5% of Local Assessed Valuation.

(2) Includes \$3,543,906 in fiscal 2003, \$2,835,792 in fiscal 2002, \$1,944,273 in fiscal 2001, \$1,693,184 in fiscal 2000, and \$1,781,413 in fiscal 1999 of debt for school and public safety purposes excluded from the limits of Proposition 2½.

TOWN FINANCES

Budget and Appropriation Process

Town Meeting: The annual appropriations of the Town are ordinarily made at the annual meeting which usually takes place in April. Appropriations may also be voted at special meetings. The Town has a finance committee, which submits reports and recommendations on proposed expenditures at Town Meetings. School committees are no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the amount appropriated by the Town Meeting.

Mandatory Items: Mandatory items, such as state and county assessments, the overlay for abatements, abatements in excess of overlays, principal and interest not otherwise provided for and final judgments are included in the tax levy whether or not included in the appropriations voted at town meeting.

Enterprises: The Town's water and sewer services are operated as enterprises, under Chapter 44 Section 53F1/2 of the General Laws. The budgets for the Water and Sewer Departments are voted on as separate items at each Annual Town Meeting. Any operating surplus generated by the Departments are retained at the end of each fiscal year within the respective Departments. The Water and Sewer rates are set by the Board of Selectmen. The Town initiated the water and sewer enterprise funds in fiscal 1996.

Revenues: Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See "THE BONDS--Source of Payment and Remedies" and "PROPERTY TAXATION--Tax Levy Computation".)

Operating Budget Trends

The following table sets forth the operating budgets for fiscal years 1999 through 2003 as voted by the Annual Town Meetings. Said budgets exclude Mandatory Items (see above) and expenditures for "non-operating" or extraordinary items authorized under "special" warrant articles at special town meetings.

	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>
General Government	\$4,503,617	\$ 4,702,364	\$ 5,358,130	\$ 5,612,926	\$ 5,642,188
Facility Maintenance	4,644,958	4,892,790	6,128,129 (4)	5,616,316 (4)	6,212,269 (4)
Public Safety	8,824,207	9,208,548	10,260,811	10,425,623	10,699,715
Public Works	8,957,791	9,716,704	10,490,967	10,345,081	10,852,444
Library Services	1,969,550	2,014,769	2,238,611	2,345,141	2,362,364
Education(1)	33,654,484	36,478,553	39,223,732	42,628,679	46,896,803
Debt Service	9,622,929	10,752,820	10,427,924	11,154,353	12,686,243
Retirement	3,076,772	3,592,193	3,714,705	3,835,711	3,554,704
Unclassified	3,901,400	4,700,000 (3)	4,124,486	4,324,769	4,880,000
Compensation Fund (2)	576,500	900,000	10,000	650,000	1,193,000
Reserve Fund	200,000	200,000	200,000	200,000	200,000
Total Expenditures	<u>\$79,932,208</u>	<u>\$87,158,741</u>	<u>\$92,177,495</u>	<u>\$97,138,599</u>	<u>\$105,179,730</u>

(1) Includes Greater Lawrence Technical School assessment.

(2) Reserve for Town union and non-union salary adjustments.

(3) Includes \$750,000 appropriated into the stabilization fund.

(4) Includes approximately \$2,000,000 annually in additional funds to the capital project fund.

Revenues

Property Taxes: Property taxes are a major source of revenue for the Town. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see "PROPERTY TAXATION--Property Tax Limitation", above. There is litigation in the Commonwealth claiming that the system of financing public education, with its heavy reliance on the property tax, is unconstitutional because it is based on the wealth of the municipality in which the student lives. In fiscal 2002, property taxes totaled \$69,135,669 or 73% of general fund revenue.

State Aid: The Town's state aid entitlement is based upon a number of different formulas, and while said formulas might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid but actual payments may vary from the estimate. In fiscal 2002, state aid totaled \$16,213,838 or 17% of general fund revenue.

Motor Vehicle Excise: An excise is imposed on the registration of motor vehicles (subject to exemptions) at a uniform rate of \$25 per \$1,000 of valuation. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 per cent per annum. Provision is also made for the non-renewal of registration and operating licenses by the registrar of motor vehicles. In fiscal 2002, motor vehicle excise tax receipts totaled \$4,422,917.

Water Rates and Services: It is the policy of the Town that the water utilities in the Town be self-sufficient and free from dependence on property tax dollars for their capital cost, operating expense, treatment expense and debt service. To reinforce this policy the Town established an enterprise fund for the water system effective July 1, 1995. Water revenues were \$6,234,371 in fiscal 2002. Total water expenses including debt service, insurance and pensions for fiscal 2002 were \$6,004,551. The residential water rate is currently \$2.52 per 100 cubic feet. (See Appendix A for additional information.)

Sewer Rates and Services: It also is the policy that the sewer utilities in the Town be self-sufficient and free from dependence on property tax dollars for their capital costs, operating expenses, debt service and wastewater treatment expense. To reinforce this policy the Town established an enterprise fund for the sewer system effective July 1, 1995. Sewer revenues totaled \$2,879,271 in fiscal 2002, while sewer expenses, including debt service, pensions and insurance, totaled approximately \$3,286,525. Sewer rates are currently \$2.52 per 100 cubic feet of water used. (See Appendix A for additional information.)

Room Occupancy Tax: Under this tax, local governments may tax the provision of hotel, motel and lodging house rooms at a rate not to exceed four percent (4%) of the cost of renting such rooms. The tax is paid by the operator of the hotel, motel or lodging house to the State Commissioner of Revenue, who in turns pays the tax back to the municipality in which the rooms are located in quarterly distributions. The Town has levied the full 4% as permitted under the law. The Town received distributions from this tax in fiscal 2002 in the amount of \$996,105.

Other: Other major sources of revenue in fiscal 2002 included departmental fees, fines, charges and investment income of \$4,114,413.

Investment of Town Funds

All funds of the Town, except for trust funds and funds of the Andover Retirement System, are invested in accordance with Section 55 of Chapter 44 of the Massachusetts General Laws (MGL). This section permits investment of available funds and bond and note proceeds, in term deposits and Certificates of Deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government and an agency thereof with a maturity of one year or less, in repurchase agreements secured by federal or federal agency securities with a maturity of 90 days or less, in participation units in the Massachusetts Municipal Depository Trust (MMDT), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer the MMDT's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with Section 54 of Chapter 44 of the MGL, which permits a broader range of investments than Section 55, including any bonds or notes that are legal investments for savings banks in the Commonwealth. The restrictions imposed by Sections 54 and 55 do not apply to Town and town retirement systems.

Breakdown of the above investments may be obtained from the Town Treasurer. Pension funds are under the jurisdiction of the Andover Contributory Retirement System. Investments and the retirement system are discussed in Appendix A.

Summary of Significant Accounting Policies

See Appendix A.

Audits

The Town's accounts were most recently audited for the fiscal year ended June 30, 2002, by Powers & Sullivan, Certified Public Accountants, a copy of which is attached hereto as Appendix A. Previous audits have been performed by Powers and Sullivan for fiscal years 1996 through 2001, by Arthur Anderson & Co. for fiscal years 1987 through 1995 and Arthur Young & Co., Certified Public Accountants, for fiscal years 1981 through 1986, copies of which are available upon request at the office of the Town Accountant. Audits have been performed annually since 1978.

Financial Statements

Set forth on the following pages for the Town of Andover are the combined balance sheets for fiscal years 2002, 2001 and 2000 and the comparative statement of revenues, expenditures and changes in fund balances for the years ending June 30, 1998 through 2002.

TOWN OF ANDOVER, MASSACHUSETTS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP AS OF JUNE 30, 2002 (1)

	Governmental Fund Types			Proprietary Fund Types			Fiduciary Fund Types		Account Group	Totals
	General Fund	Special Revenue Fund	Capital Projects Fund	Sewer Enterprise	Water Enterprise	Internal Service	Trust and Agency	Pension Trust December 31, 2001	General Long-Term Obligations	(Memorandum Only)
ASSETS:										
Cash and Short-Term Investments	\$ 8,552,063	\$ 2,084,338	\$ 24,940,121	\$ 832,708	\$ 3,837,101	\$ 969,880	\$ 1,893,024	\$ 4,809,138		\$ 47,918,373
Investments	3,419,247						3,186,666	73,467,218		80,073,131
Interest and Dividends								384,728		384,728
Receivables, Net of Allowance for Uncollectibles:										
Real Estate and Personal Property Taxes	889,142									889,142
Tax Liens	586,629									586,629
Motor Vehicle and Other Excise Taxes	559,274									559,274
User Fees				1,117,319	1,610,064					2,727,383
Departmental and Other	319,730									319,730
Intergovernmental	22,102,479	2,134,752						2,129,670		26,366,901
Investment in Joint Venture	3,640,696									3,640,696
Working Capital Deposit						323,700				323,700
Tax Foreclosures	696,532									696,532
Prepaid Expenses						502,841				502,841
Amounts to be Provided for Retirement of Long-Term Obligations									85,259,000	85,259,000
Total Assets and Other Debits	<u>\$ 40,765,792</u>	<u>\$ 4,219,090</u>	<u>\$ 24,940,121</u>	<u>\$ 1,950,027</u>	<u>\$ 5,447,165</u>	<u>\$ 1,796,421</u>	<u>\$ 5,079,690</u>	<u>\$ 80,790,754</u>	<u>\$ 85,259,000</u>	<u>\$ 250,248,060</u>
LIABILITIES AND RESERVES:										
Warrants Payable	\$ 766,121	\$ 376,286	\$ 6,060,929	\$ 6,150	\$ 110,515	\$ 102,307	\$ 10,895	\$ 344,712		\$ 7,777,915
Accrued Payroll	1,370,687	112,865	3,712	6,427	33,052	780	1,096			1,528,619
Health Claims Payable						522,000				522,000
Tax Refunds Payable	108,000									108,000
Liabilities Due Depositors							287,232			287,232
Other Liabilities	51,559			6,106						57,665
Deferred Revenues	25,008,786	1,598,298		1,117,319	1,610,064					29,334,467
Securities Lending Collateral								10,081,348		10,081,348
Landfill Closure									\$ 2,000,000	2,000,000
Accrued Compensated Absences									3,696,000	3,696,000
Workers' Compensation						303,000				303,000
Bonds and Notes Payable			29,600,000						79,563,000	109,163,000
Total Liabilities	<u>27,305,153</u>	<u>2,087,449</u>	<u>35,664,641</u>	<u>1,136,002</u>	<u>1,753,631</u>	<u>928,087</u>	<u>299,223</u>	<u>10,426,060</u>	<u>85,259,000</u>	<u>164,859,246</u>
FUND EQUITY:										
Retained Earnings										
Designated for capital				528,247	3,077,421					3,605,668
Unreserved				285,778	616,113	868,334				1,770,225
Fund Balances:										
Reserved for:										
Encumbrances and Continuing Appropriations	3,151,400									3,151,400
Nonexpendable Trust							746,651			746,651
Stabilization							1,156,108			1,156,108
Pension Benefits								70,364,694		70,364,694
Unreserved:										
Designated for Investment in Joint Venture	3,640,696									3,640,696
Designated for Subsequent Years's Expenditures	300,000									300,000
Undesignated	6,368,543	2,131,641	(10,724,520)				2,877,708			653,372
Total Fund Equity	<u>13,460,639</u>	<u>2,131,641</u>	<u>(10,724,520)</u>	<u>814,025</u>	<u>3,693,534</u>	<u>868,334</u>	<u>4,780,467</u>	<u>70,364,694</u>	<u>-</u>	<u>85,388,814</u>
Total Liabilities and Fund Equity	<u>\$ 40,765,792</u>	<u>\$ 4,219,090</u>	<u>\$ 24,940,121</u>	<u>\$ 1,950,027</u>	<u>\$ 5,447,165</u>	<u>\$ 1,796,421</u>	<u>\$ 5,079,690</u>	<u>\$ 80,790,754</u>	<u>\$ 85,259,000</u>	<u>\$ 250,248,060</u>

(1) Extracted from the audited financial statements of the Town.

**TOWN OF ANDOVER, MASSACHUSETTS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP AS OF JUNE 30, 2001 (1)**

	Governmental Fund Types			Proprietary Fund Types			Fiduciary Fund Types		Account Group	Totals
	General Fund	Special Revenue Fund	Capital Projects Fund	Water Enterprise	Sewer Enterprise	Internal Service	Trust and Agency	Pension Trust December 31, 2000	General Long-Term Obligations	(Memorandum Only)
ASSETS:										
Cash and Short-Term Investments	\$ 11,299,148	\$ 2,306,189	\$ 26,140,080	\$ 3,600,982	\$ 1,232,218	\$ 2,746,897	\$ 1,393,784	\$ 23,052,093	\$ -	\$ 71,771,391
Investments:		-	-	-	-	-	3,469,002	64,157,201	-	67,626,203
Receivables:										
Real Estate and personal Property Taxes	1,015,645	-	-	-	-	-	-	-	-	1,015,645
Tax Liens	1,167,609	-	-	-	-	-	-	-	-	1,167,609
Motor Vehicle Excise	559,522	-	-	-	-	-	-	-	-	559,522
User Fees	-	-	-	1,284,274	1,148,690	-	-	-	-	2,432,964
Other	526,909	-	-	-	-	-	-	22,431	-	549,340
Interest and Dividends	-	-	-	-	-	-	-	508,245	-	508,245
Intergovernmental	22,998,769	2,205,893	-	-	-	-	-	-	-	25,204,662
Other Assets:										
Investment in Joint Venture	2,957,325	-	-	-	-	-	-	-	-	2,957,325
Working Capital Deposits	-	-	-	-	-	290,800	-	-	-	290,800
Amounts to be Provided for Retirement of Long-Term Obligations	-	-	-	-	-	-	-	-	72,497,000	72,497,000
Total Assets and Other Debits	<u>\$ 40,524,927</u>	<u>\$ 4,512,082</u>	<u>\$ 26,140,080</u>	<u>\$ 4,885,256</u>	<u>\$ 2,380,908</u>	<u>\$ 3,037,697</u>	<u>\$ 4,862,786</u>	<u>\$ 87,739,970</u>	<u>\$ 72,497,000</u>	<u>\$ 246,580,706</u>
LIABILITIES AND RESERVES:										
Warrants Payable	1,117,758	228,040	2,807,921	109,549	974	-	8,663	1,389,781	-	5,662,686
Accrued Expenditure	1,205,483	74,028	2,435	27,719	4,160	923,782	1,029	-	-	2,238,636
Reserve for Abatements	2,153,299	-	-	-	-	-	-	-	-	2,153,299
Liabilities Due Depositors	-	-	-	-	-	-	228,618	-	-	228,618
Other Liabilities	28,008	-	-	-	5,805	-	-	-	-	33,813
Securites Lending Collateral	-	-	-	-	-	-	-	15,291,640	-	15,291,640
Deferred Revenues	23,902,156	2,034,000	-	1,284,274	1,148,690	-	-	206,364	-	28,575,484
Landfill Closure	-	-	-	-	-	-	-	-	2,000,000	2,000,000
Accrued Compensated Absences	-	319,978	-	-	-	-	-	-	3,032,000	3,351,978
Bonds and Notes Payable	-	-	15,500,000	-	-	-	-	-	67,465,000	82,965,000
Total Liabilities	<u>28,406,704</u>	<u>2,656,046</u>	<u>18,310,356</u>	<u>1,421,542</u>	<u>1,159,629</u>	<u>923,782</u>	<u>238,310</u>	<u>16,887,785</u>	<u>72,497,000</u>	<u>142,501,154</u>
FUND EQUITY:										
Retained Earnings										
Reserved for:										
Employee Benefits	-	-	-	-	-	1,874,340	-	-	-	1,874,340
Workers Compensation	-	-	-	-	-	(99,974)	-	-	-	(99,974)
Unemployment Compensation	-	-	-	-	-	200,304	-	-	-	200,304
Building Insurance	-	-	-	-	-	139,245	-	-	-	139,245
Designated for Capital	-	-	-	2,876,705	939,876	-	-	-	-	3,816,581
Unreserved	-	-	-	587,009	281,403	-	-	-	-	868,412
Reserved for:										
Encumbrances and Continuing Appropriations	2,216,572	-	-	-	-	-	-	-	-	2,216,572
Nonexpendable Trust	-	-	-	-	-	-	672,792	-	-	672,792
Stabilization	-	-	-	-	-	-	880,105	-	-	880,105
Pension Benefits	-	-	-	-	-	-	-	70,852,185	-	70,852,185
Unreserved										
Designated for investment in joint venture	2,957,325	-	-	-	-	-	-	-	-	2,957,325
Designated for subsequent years's expenditures	300,000	-	-	-	-	-	-	-	-	300,000
Undesignated	6,644,326	1,856,036	7,829,724	-	-	-	3,071,579	-	-	19,401,665
Total Fund Equity	<u>12,118,223</u>	<u>1,856,036</u>	<u>7,829,724</u>	<u>3,463,714</u>	<u>1,221,279</u>	<u>2,113,915</u>	<u>4,624,476</u>	<u>70,852,185</u>	<u>-</u>	<u>104,079,552</u>
Total Liabilities and Fund Equity	<u>\$ 40,524,927</u>	<u>\$ 4,512,082</u>	<u>\$ 26,140,080</u>	<u>\$ 4,885,256</u>	<u>\$ 2,380,908</u>	<u>\$ 3,037,697</u>	<u>\$ 4,862,786</u>	<u>\$ 87,739,970</u>	<u>\$ 72,497,000</u>	<u>\$ 246,580,706</u>

(1) Extracted from the audited financial statements of the Town.

**TOWN OF ANDOVER, MASSACHUSETTS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP AS OF JUNE 30, 2000 (1)**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types			Account Group	Combined
	General Fund	Special Revenue Fund	Capital Projects Fund	Water Enterprise	Sewer Enterprise	Internal Service	Trust and Agency	Pension Trust	General Long-Term Obligations Group	Totals (Memorandum Only)
ASSETS:										
Cash and Short-Term Investments	\$ 10,534,613	\$ 1,941,173	\$ 13,269,844	\$ 3,757,870	\$ 1,178,511	\$ 3,528,962	\$ 2,300,641	\$ 21,737,569	\$ -	58,249,183
Cash Held by Fiscal Agent	-	-	-	-	-	-	-	-	-	-
Investments:	812,390	-	-	-	-	-	2,375,118	59,820,592	-	63,008,100
Receivables:										
Real Estate and personal Property Taxes	1,158,609	-	-	-	-	-	-	-	-	1,158,609
Tax Liens	1,231,216	-	-	-	-	-	-	-	-	1,231,216
Motor Vehicle Excise	729,077	-	-	-	-	-	-	-	-	729,077
User Fees	-	-	-	1,243,361	1,158,385	-	-	-	-	2,401,746
Other	549,072	-	-	-	-	-	-	201,175	-	750,247
Interest and Dividends	-	-	-	-	-	-	-	409,980	-	409,980
Intergovernmental	3,769	243,443	-	-	-	-	-	-	-	247,212
Other Assets:										
Investment in Joint Venture	2,160,777	-	-	-	-	-	-	-	-	2,160,777
Working Capital Deposits	-	-	-	-	-	308,632	-	-	-	308,632
Amounts to be Provided for Retirement of Long-Term Obligations	-	-	-	-	-	-	-	-	69,426,000	69,426,000
Total Assets and Other Debits	<u>\$ 17,179,523</u>	<u>\$ 2,184,616</u>	<u>\$ 13,269,844</u>	<u>\$ 5,001,231</u>	<u>\$ 2,336,896</u>	<u>\$ 3,837,594</u>	<u>\$ 4,675,759</u>	<u>\$ 82,169,316</u>	<u>\$ 69,426,000</u>	<u>\$ 200,080,779</u>
LIABILITIES AND RESERVES:										
Warrants Payable	1,069,115	97,542	753,163	73,560	29,531	-	-	248,909	-	2,271,820
Accrued Expenditure	896,985	21,469	1,200	18,458	2,701	739,819	790	-	-	1,681,422
Reserve for Abatements	1,656,887	-	-	-	-	-	-	-	-	1,656,887
Liabilities Due Depositors	-	-	-	-	-	-	308,643	-	-	308,643
Other Liabilities	32,345	-	-	-	5,506	-	-	-	-	37,851
Securities Lending Collateral	-	-	-	-	-	-	-	16,684,459	-	16,684,459
Deferred Revenues	1,766,857	-	-	1,243,361	1,158,385	-	-	272,911	-	4,441,514
Landfill Closure	-	-	-	-	-	-	-	-	2,200,000	2,200,000
Accrued Compensated Absences	-	369,594	-	-	-	-	-	-	2,926,000	3,295,594
Capital Leases	-	-	-	-	-	-	-	-	-	-
Bonds and Notes Payable	-	-	2,866,552	-	-	-	-	-	64,300,000	67,166,552
Total Liabilities	<u>5,422,189</u>	<u>488,605</u>	<u>3,620,915</u>	<u>1,335,379</u>	<u>1,196,123</u>	<u>739,819</u>	<u>309,433</u>	<u>17,206,279</u>	<u>69,426,000</u>	<u>99,744,742</u>
FUND EQUITY:										
Retained Earnings										
Reserved for:										
Employee Benefits	-	-	-	-	-	2,548,707	-	-	-	2,548,707
Workers Compensation	-	-	-	-	-	41,795	-	-	-	41,795
Unemployment Compensation	-	-	-	-	-	246,966	-	-	-	246,966
Building Insurance	-	-	-	-	-	260,307	-	-	-	260,307
Designated for Capital	-	-	-	2,976,523	868,722	-	-	-	-	3,845,245
Unreserved	-	-	-	689,329	272,051	-	-	-	-	961,380
Reserved for:										
Encumbrances and Continuing Appropriations	2,442,090	-	-	-	-	-	-	-	-	2,442,090
Debt Service	-	-	-	-	-	-	-	-	-	-
Nonexpendable Trust	-	-	-	-	-	-	672,792	-	-	672,792
Stabilization	-	-	-	-	-	-	782,412	-	-	782,412
Pension Benefits	-	-	-	-	-	-	-	64,963,037	-	64,963,037
Unreserved										
Designated for investment in joint venture	2,160,777	-	-	-	-	-	-	-	-	2,160,777
Designated for subsequent years's expenditures	1,050,000	-	-	-	-	-	-	-	-	1,050,000
Undesignated	6,104,467	1,696,011	9,648,929	-	-	-	2,911,122	-	-	20,360,529
Total Fund Equity	<u>11,757,334</u>	<u>1,696,011</u>	<u>9,648,929</u>	<u>3,665,852</u>	<u>1,140,773</u>	<u>3,097,775</u>	<u>4,366,326</u>	<u>64,963,037</u>	<u>-</u>	<u>100,336,037</u>
Total Liabilities and Fund Equity	<u>\$ 17,179,523</u>	<u>\$ 2,184,616</u>	<u>\$ 13,269,844</u>	<u>\$ 5,001,231</u>	<u>\$ 2,336,896</u>	<u>\$ 3,837,594</u>	<u>\$ 4,675,759</u>	<u>\$ 82,169,316</u>	<u>\$ 69,426,000</u>	<u>\$ 200,080,779</u>

(1) Extracted from the audited financial statements of the Town.

**TOWN OF ANDOVER, MASSACHUSETTS
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE—GENERAL FUND(1)**

	1998	1999	2000	2001	2002
REVENUES:					
Real Estate Taxes	\$54,322,655	\$ 57,536,860	\$ 61,312,434	\$ 63,880,049	\$ 69,135,669
Motor Vehicle Excise	4,737,031	4,491,905	4,739,915	5,435,383	4,422,917
Tax Liens and Foreclosures	(2)	431,685	206,172	179,483	228,031
Departmental	2,422,120	2,356,586	2,287,539	2,459,948	3,380,834
Intergovernmental	7,918,911	8,949,978	14,437,741	16,523,686	16,213,838
Earnings on Investments	853,793	943,410	1,126,103	1,384,600	825,395
Other Revenues	895,525	994,440	1,087,947	1,290,906	996,105
TOTAL REVENUES	\$ 71,150,035	\$ 75,704,864	\$ 85,197,851	\$ 91,154,055	\$ 95,202,789
EXPENDITURES:					
General Government	\$2,443,710	\$ 2,230,108	\$ 2,212,763	\$ 2,612,768	2,553,984
Public Safety	8,997,553	8,765,242	10,203,582	10,246,672	10,482,387
Public Works	3,717,999	5,141,910	4,071,711	5,938,875	4,327,296
Municipal Maintenance	4,041,937	4,875,144	4,965,323	5,675,225	5,777,122
Community Development	1,113,327	1,102,698	1,059,830	1,314,724	1,279,839
Community Service	1,054,151	1,207,537	1,342,717	1,631,592	1,601,373
Schools	31,281,562	33,943,409	36,914,179	40,044,701	43,619,296
Pension Benefits	2,770,950	3,051,170	8,275,761	8,686,244	8,522,848
Debt Service	6,375,800	6,800,626	7,079,263	6,629,505	7,582,606
Library	2,057,584	1,960,700	1,981,666	2,414,917	2,381,765
State and County Charges	1,015,466	982,643	980,904	1,094,215	1,227,461
Employee Benefits	3,325,000	3,325,000	3,589,016	3,735,311	4,229,172
Other Expenditures	790,965	496,049	593,513	527,958	541,800
TOTAL EXPENDITURES	\$ 68,986,004	\$ 73,882,236	\$ 83,270,228	\$ 90,552,707	\$ 94,126,949
Excess (Deficit) of Revenues Over (Under) Expenditures	2,164,031	1,822,628	1,927,623	601,348	1,075,840
Other Financing Sources (Uses):					
Bonding Proceeds	-	-	-	-	-
Interfund Transfers	(1,270,575.0)	(2,632,043.0)	(1,912,440.0)	-	-
Operating Transfers in	-	-	-	347,229	249,740
Operating Transfers out	-	-	-	(1,529,347)	(1,007,269)
Enterprise fund debt service transfer in	917,185	959,602	896,818	941,659	1,024,105
TOTAL OTHER FINANCING SOURCES (USES)	(353,390)	(1,672,441)	(1,015,622)	(240,459)	266,576
Excess of Revenues and Other Sources Less Expenditures and Other Uses	1,810,641	150,187	912,001	360,889	1,342,416
FUND BALANCES, BEGINNING OF FY	8,884,505	10,695,146	10,845,333	11,757,334	12,118,223
FUND BALANCES, FISCAL YEAR END	\$10,695,146	\$10,845,333	\$11,757,334	\$12,118,223	\$13,460,639

(1) Extracted from the audited financial statements of the Town.

(2) Included under other categories.

Free Cash

Under the Uniform System of Accounting prescribed by The Commonwealth of Massachusetts Department of Revenue, subject to certain adjustments, free cash is defined as Surplus Revenue (unreserved general fund balance in the Town's case) less uncollected and overdue property taxes from prior years. The table below sets forth the amount of Free Cash for the following fiscal years.

The following table sets forth the trend in the Town's free cash at the end of the last five fiscal years.

<u>Fiscal Year</u>	<u>Free Cash</u>
2002	\$ 3,340,240
2001	3,767,004
2000	3,829,325
1999	3,652,583
1998	5,337,939

Stabilization Fund

The Town maintains a stabilization fund which is accounted for in the Trust Funds. Funded by an annual appropriation, the stabilization fund plus interest income may be appropriated at an annual or special town meeting for any municipal purpose.

The table below lists the Stabilization Fund balances as of the end of the following fiscal years. \$600,000 was appropriated from this fund for various capital projects in fiscal 2003.

<u>Fiscal Year</u>	<u>Stabilization Fund</u>
2002	\$ 997,441
2001	880,105
2000	782,411
1999	1,790,548
1998	1,618,849

INDEBTEDNESS

Authorization Procedure and Limitations

Bonds and notes are generally authorized on behalf of the Town by a two-thirds vote of the Town Meeting. Borrowings for certain purposes require state administrative approval. Temporary loans in anticipation of certain state and county reimbursements are generally authorized by majority vote but provision is made for temporary loans in anticipation of current revenues and federal grants and for other purposes in certain circumstances without town meeting authorization.

The general debt limit of the Town of Andover consists of a normal debt limit and a double debt limit. The normal debt limit is 5 per cent of the valuation of taxable property as last equalized by the State Department of Revenue. The Town can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the double debt limit) with the approval of the State Emergency Finance Board.

There are many categories of general obligation debt which are exempt from and do not count against the general debt limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes, emergency loans, loans exempted by special laws, certain school bonds and sewer bonds, and subject to special debt limits, bonds for water (limited to 10 per cent of equalized valuation), housing, and urban renewal and economic development (limited to 5 1/2 per cent). Industrial revenue bonds generally are not subject to these debt limits. The general debt limit and water debt limit apply at the time debt is authorized.

Types of Obligations

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in equal or diminishing annual principal amounts beginning no later than by the end of the fiscal year following the date of issue and ending within the terms permitted by law. The maximum terms may vary from one year to 40 years, depending on the purpose of the issue. Most of the allowable purposes are for capital projects. Serial bonds may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum term measured from the date of the original bonds or notes. Serial bonds may be issued as "qualified bonds" with the approval of the State Emergency Finance Board, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. The State Treasurer is required to pay the debt service on qualified bonds, and, thereafter, to withhold the amount of the debt service from state aid or other state payments. Administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Bond Anticipation Notes. These must mature within two years of their original dates of issuance, but may be refunded from time to time up to five years from their original dates. The maximum term of a like amount of the anticipated bonds is measured from the date of original issue of the notes. If the notes are refunded beyond two years an amount of the debt equal to one required annual installment must be retired at the maturity of notes in each of the third, fourth and fifth years from their original issue date, other than notes issued for certain school projects for which state construction aid is anticipated.

Revenue Anticipation Notes These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year, but, if payable in less than one year, they may under the statute be refunded from time to time up to one year from the original date of issue. The Town has not issued revenue anticipation notes during the current or last five fiscal years.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. They must generally mature within two years but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement. Notes in anticipation of certain state and county reimbursements may be refunded only up to two years from the original date of issue.

TOWN OF ANDOVER
Direct Debt Summary
Projected as of June 30, 2003

General Obligation Bonds:

Outstanding:

Water (1)	\$7,428,000	
Sewer (2)	15,964,000	
School (3)	39,919,000	
General (4)	17,057,000	
Land Acquisition	<u>2,697,000</u>	
Total Outstanding		\$ 83,065,000

Short Term Notes Outstanding (5) \$ 27,913,000

TOTAL DIRECT DEBT \$110,978,000

- (1) Self-supporting through enterprise fund revenues. Subject to a special separate debt limit of 10% of the Town's equalized valuation or \$558,966,470.
- (2) Self-supporting through enterprise fund revenues. Subject to the Town's general debt limit.
- (3) Subject to the Town's debt limit, except for \$21,285,000 which is outside the debt limit. The unpaid balance of school construction grants payable over the life of outstanding school debt is estimated at \$25,942,627. Said grant payments, which are applicable to both interest and principal, are subject to annual appropriation by the State legislature. The debt service on \$36,034,000 of the school bonds outstanding have been exempted from the limits of Proposition 2 ½.
- (4) Subject to the debt limit, except for \$10,275,000 which is exempt from the limits on Proposition 2 ½.
- (5) Issued June 20, 2003. \$12,331,000 of the issue is new money. \$5,975,000 is payable December 18, 2003 and \$21,938,000 is payable June 15, 2005.

Debt Ratios

The following table sets forth the ratio of debt to equalized valuation and per capita debt ratios at the end of the five most recent fiscal years. The table considers the principal amount of general obligation bonds and serial notes of the Town of Andover. The table does not deduct anticipated state grant payments applicable to the principal amount of outstanding bonds or debt that may be supported in whole, or part, by non-tax revenues. (See "Direct Debt Summary".)

Fiscal Year End	General Obligation Bonds Outstanding	2000 Federal Census Population	Local Assessed Valuation	Per Capita Debt	Ratio Debt To Assessed Valuation
2003 (1)	\$ 83,065,000	31,247	\$ 5,913,651,684	\$ 2,658	1.40 %
2002	78,753,000	31,247	4,496,094,381	2,520	1.75
2001	66,425,000	31,247	3,972,908,975	2,126	1.67
2000	63,045,000	31,247	3,867,601,192	2,018	1.63
1999	64,690,000	31,247	3,472,882,657	2,070	1.86

(1) Projected as of June 30, 2003.

Projected Principal Payments by Purpose

The following table sets forth the projected principal payments by purpose on outstanding bonds of the Town. As indicated in the table, of the total \$83,065,000 bonds to be outstanding upon the issuance of the Notes, \$35,330,000 or approximately 43% of the total outstanding are to be paid by the end of fiscal 2008 and \$60,640,000 or approximately 73% of the debt will be retired at the end of fiscal 2013.

General Obligation Debt Projected Principal Payments by Purpose Projected as of June 30, 2003

Fiscal Year	School (1)	Water (2)	Sewer (2)	General (3)	Land Acquisition	Total Principal
2004	\$ 3,130,000	\$ 1,056,000	\$ 1,560,000	\$ 1,706,000	\$ 368,000	\$ 7,820,000
2005	2,795,000	1,051,000	1,320,000	1,726,000	448,000	7,340,000
2006	2,809,000	1,040,000	1,115,000	1,665,000	381,000	7,010,000
2007	2,879,000	1,036,000	1,115,000	1,485,000	325,000	6,840,000
2008	2,914,000	872,000	874,000	1,345,000	315,000	6,320,000
2009	2,984,000	871,000	865,000	1,285,000	315,000	6,320,000
2010	2,953,000	797,000	825,000	1,095,000	515,000	6,185,000
2011	2,705,000	370,000	670,000	795,000	15,000	4,555,000
2012	2,880,000	215,000	670,000	705,000	15,000	4,485,000
2013	2,420,000	120,000	670,000	555,000	-	3,765,000
2014	2,340,000	-	670,000	555,000	-	3,565,000
2015	2,340,000	-	670,000	555,000	-	3,565,000
2016	2,340,000	-	670,000	555,000	-	3,565,000
2017	1,340,000	-	670,000	555,000	-	2,565,000
2018	630,000	-	670,000	555,000	-	1,855,000
2019	630,000	-	670,000	555,000	-	1,855,000
2020	630,000	-	670,000	555,000	-	1,855,000
2021	500,000	-	670,000	555,000	-	1,725,000
2022	350,000	-	670,000	255,000	-	1,275,000
2023	350,000	-	250,000	-	-	600,000
2024	-	-	-	-	-	-
Total	<u>\$ 39,919,000</u>	<u>\$ 7,428,000</u>	<u>\$ 15,964,000</u>	<u>\$ 17,057,000</u>	<u>\$ 2,697,000</u>	<u>\$ 83,065,000</u>

(1) The debt service on \$36,034,000 of these bonds has been excluded from the limits of Proposition 2 ½.

(2) Self-supporting through enterprise fund revenues.

(3) Includes street improvements, computer and building purposes and a court judgment to Massachusetts REFUSETECH. \$10,275,000 of this amount for the Public Safety Building has been excluded from the limits of Proposition 2 ½.

Debt Service Requirements

The following table sets forth the required principal and interest payments on all general obligation debt of the Town of Andover, Projected as of June 30, 2003.

GENERAL OBLIGATION BONDS AND SERIAL NOTES DEBT SERVICE REQUIREMENTS PROJECTED AS OF JUNE 30, 2003

Fiscal Year	Total Principal & Interest	Less State Reimbursements	Net Debt Service	Total
2004	\$ 11,494,093	(1,894,648)	\$ 9,599,444	\$ 9,599,444
2005	10,682,428	(1,894,648)	8,787,779	8,787,779
2006	10,032,435	(1,894,648)	8,137,787	8,137,787
2007	9,548,893	(1,894,648)	7,654,244	7,654,244
2008	8,731,700	(1,894,648)	6,837,052	6,837,052
2009	8,440,693	(1,894,648)	6,546,045	6,546,045
2010	8,017,540	(1,894,648)	6,122,892	6,122,892
2011	6,136,859	(1,894,648)	4,242,210	4,242,210
2012	5,849,453	(1,894,648)	3,954,804	3,954,804
2013	4,930,346	(1,894,648)	3,035,697	3,035,697
2014	4,553,860	(1,894,648)	2,659,212	2,659,212
2015	4,380,938	(1,894,648)	2,486,289	2,486,289
2016	4,207,363	(1,894,648)	2,312,714	2,312,714
2017	3,060,119	(1,312,198)	1,747,920	1,747,920
2018	2,246,719	-	2,246,719	2,246,719
2019	2,160,306	-	2,160,306	2,160,306
2020	2,073,294	-	2,073,294	2,073,294
2021	1,858,125	-	1,858,125	1,858,125
2022	1,335,750	-	1,335,750	1,335,750
2023	615,000	-	615,000	615,000
				-
Total	<u>\$ 110,355,910</u>	<u>\$ (25,942,627)</u>	<u>\$ 84,413,284</u>	<u>\$ 84,413,284</u>

Authorized Unissued Debt and Prospective Financing

After the issue of these Bonds dated June 15, 2003, the Town will have \$54,732,052 in authorized, unissued debt.

<u>Purpose</u>	<u>Authorization</u>	<u>Expected Long-Term Financing Date</u>
Public Safety(1)	\$830,552	Fiscal Year 2004
Park Improvements	388,000	Indefinite
Land Aquisition	5,000,000	Indefinite
Sewer (2)	17,960,000	Fiscal Year 2006
School(1)	24,088,000	Fiscal Year 2004-06
Landfill Closure	2,200,000	Fiscal Year 2005
Highways	573,500	Fiscal Year 2004
Bridges	1,157,000	Fiscal Year 2004
Public Buildings	1,060,000	Fiscal Year 2005
Water (2)	1,475,000	Fiscal Year 2004
Totals	<u>\$54,732,052</u>	

(1) The debt service on these projects has been excluded from the limits of Proposition 2 ½.

(2) Any future financing is expected to be fully-supported by sewer or water user charges and betterment assessments.

Overlapping Debt

The Town of Andover is a member of the Greater Lawrence Regional Vocational Technical High School District, the Merrimack Valley Regional Transit Authority and the Greater Lawrence Sanitary District. The following table sets forth the outstanding bonded debt, exclusive of temporary loans in anticipation of bonds or current revenue, of each of the overlapping entities as of June 30, 2002, the Town's estimated gross share of such debt, and fiscal 2003 dollar assessments.

<u>Overlapping Entity</u>	<u>Outstanding Debt as of June 30, 2002</u>	<u>Andover's Estimated Share(1)</u>	<u>Fiscal 2003 Dollar Assessment(2)</u>
Greater Lawrence Regional Vocational Technical School District(3)	\$ 26,975,000	0.8	\$ 75,388
Merrimack Valley Regional Transit Authority(4)	0	%	160,039
Greater Lawrence Sanitary District(5)	13,950,000	6.38	1,282,637

(1) Estimated share based on debt service only.

(2) Estimated dollar assessment based upon total net operating expenses, inclusive (where applicable) of debt service.

(3) SOURCE: Greater Lawrence Regional Vocational Technical High School District. Towns may organize regional school districts to carry out general or specialized educational functions. Pursuant to special laws a number of cities may also participate in regional school district, primarily for vocational education. The operating expenses and debt service of regional school districts are apportioned among the member municipalities in accordance with the agreements establishing the district. The municipal share is based on the ratio of that member's pupil enrollment to the total pupil enrollment from all the member municipalities in the regional school district as of October 1 of the year preceding the year for which the apportionment is being determined. This District issued \$30,000,000 bonds on July 15, 2001 for a major renovation to the existing facility. The total authorization for this project was \$51,000,000. The District issued the remaining \$21,000,000 bonds on September 15, 2002. The Commonwealth has awarded the District a school building assistance grant of 85.5% of construction costs and interest expense. The yearly cost to Andover will be approximately \$10,000.

(4) SOURCE: Merrimack Valley Regional Transit Authority. The municipal share, of any debt outstanding, is based on a percentage furnished by the Authority as that used in the most recent assessment of the net cost of service of the Authority, including debt service and operating expenses. Shares vary from year to year. Although the Commonwealth is not bound to do so, it is anticipated that the Commonwealth will from year to year provide contract assistance to the Authority absorbing up to 50 percent of the aggregate net cost of service. The Authority currently has no authorized unissued debt.

(5) SOURCE: Greater Lawrence Sanitary District. Each member community pays for its proportionate share of the District's operating costs based upon the percent of wastewater received from each respective community. Member communities include Andover, Lawrence, Methuen and North Andover and Salem, N.H.

CONTRACTUAL OBLIGATIONS

Obligations to make payments on account of municipal contracts are generally limited to currently available appropriations. A Massachusetts city or town has general statutory authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but in most cases only when funds are available for the first fiscal year; obligations for succeeding fiscal years are in those cases expressly subject to availability and appropriation of funds. Specific authority exists in relatively few cases for long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal (20 year maximum term) and certain contracts by municipal electric departments. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There is implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The Town of Andover, at present, has a limited number of contractual obligations. The most significant of these is a contract with Massachusetts REFUSETECH, inc. (MRI), which is a twenty (20) year contract for disposal of solid waste at MRI's regional waste-to-energy facility in North Andover. (see "Massachusetts REFUSETECH, Inc." below) The contract runs from September 1985 through September 2005. The second significant contract is with Browning Ferris (BFI), which is a wholly owned subsidiary of Allied Waste Systems, Inc. The fiscal year 2002 cost to the Town under the BFI/Allied contract was \$525,000 and the cost for fiscal year 2003 is \$740,000. The BFI/Allied contract expires in fiscal 2005 or 2007 at the option of the Town.

Massachusetts REFUSETECH, Inc.

Massachusetts REFUSETECH, Inc., ("MRI") a Wheelabrator Technologies company that is a wholly-owned subsidiary of Waste Management, Inc. was organized specifically for the purpose of, and has been engaged solely in the business of, operating a solid waste disposal waste-to-energy facility in North Andover, Massachusetts, which generates electrical power. The facility, which commenced operation in September, 1985, provides solid waste disposal services to twenty-three (23) communities located in Northeastern Massachusetts, which are referred to as NESWC (Northeast Solid Waste Committee) of which Andover is a member. NESWC was formed to coordinate policies with respect to the communities' use of the facility.

Each NESWC member community entered into an agreement with MRI to dispose of minimum "guaranteed annual tonnage" (GAT) of solid waste and to make certain minimum annual payments for such disposal at the facility. The Town is absolutely and unconditionally obligated to make the minimum annual payment without regard to any conditions or contingencies whether or not the Town actually delivers the GAT or whether or not the facility continues operation. The NESWC communities are entitled to certain credits against the payment obligations, primarily from the sale of electricity and private hauler disposal. The Town has been utilizing its tip fee stabilization fund in the amounts of \$136,255 in fiscal 2002 and \$640,000 in fiscal 2003 to minimize the budget impact for solid waste disposal at the facility. The net cost to the Town's budget for FY/2002 was \$1,407,654 and the estimated FY/2003 cost is \$1,475,000.

The facility was originally financed by the issuance of \$197 million bonds in April 1983, which were refunded or decreased by a \$188 million issue in February 1993. Based on the communities aggregate GAT to be disposed at the facility, in the "worst case" of a facility failure under circumstances where MRI is not required, or unable to pay damages, the Town's indirect share of the bonds outstanding (net of reserve) would be 6.06%.

RETIREMENT PLAN

The Town has a contributory retirement system that is partially funded by employee contributions. The active Town employees contribute 5%, 7%, 8% or 9% (depending upon date of employment) of their regular compensation. For persons whose employment commenced prior to July 1, 1937, the Town has a non-contributory retirement plan. The Town's method of funding for the contributory plan is a 32 year funding schedule adopted through Chapter 697 of the Acts of 1987. The Town has accelerated its pension funding schedule with the date of full funding moved from 2028 to 2018. Funding for the non-contributory pension plan is on a pay-as-you-go basis. The pay-as-you-go amounts are legal obligations of the municipality and are required to be included in its annual tax levy. The retirement system covers substantially all municipal employees except schoolteachers, whose pensions are paid by the Commonwealth.

Massachusetts Contributory Retirement System benefits are uniform from system to system. The Massachusetts Contributory Retirement System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

The annual required contributions of the Town to each retirement system for the current and last four fiscal years were as follows:

<u>Year Ending</u>	<u>Contributory</u>	<u>Non-Contributory</u>
June 30, 2003	\$ 3,471,810	\$ 30,509
June 30, 2002	3,728,220	53,000
June 30, 2001	3,601,720	60,600
June 30, 2000	3,471,808	68,000
June 30, 1999	2,876,387	65,000

The unfunded pension benefit obligation of the contributory retirement system on January 1, 1998 was as follows:

	<u>January 1, 1998</u>
Actuarial Accrued Liabilities	\$71,163,900
Market Value of Fund Assets	<u>48,767,700</u>
Unfunded Pension Benefit Obligation	<u>\$22,396,200</u>

SOURCE: Extracted from the audited financial statements. No estimate is available for the unfunded liability of the non-contributory system. Estimates of actuarial liabilities depend on the underlying actuarial assumptions and reference is made to Appendix A for a description of these assumptions.

EMPLOYEE RELATIONS

The Town employs approximately 1,375 full and part-time workers, of whom 912 are employed by the School Department, 73 by the Fire Department, 72 by the Police Department, 136 by the Public Works and Maintenance Departments, and the balance of the employees are in various other departments of the Town. Town and school employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours and other terms and conditions of employment. Of the 1,375 full and part-time employees of the Town, 991 are represented by unions including employees of the school, police, fire and public works departments. Contracts for the custodians and food service workers expire on June 30, 2003. Instructional assistants and secretaries contracts expire on August 31, 2004 and June 30, 2004, respectively. The contracts with police, fire and public works expire on June 30, 2004. The school administrator's contract expires on June 30, 2004. The contract for teachers will expire on June 30, 2003.

LITIGATION

At present there are a few cases pending in various courts throughout the Commonwealth where the Town of Andover is a defendant. In the opinion of the Town, none of the pending litigation is likely to result, either individually or in the aggregate, in a final judgment against the Town that would materially affect its financial position.

June 3, 2003

/s/ David J. Reilly
Town Treasurer